*TRANSLATION*

# 2017 SEMI-ANNUAL REPORT OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A.

AUGUST 2017

| SELECTED FINANCIAL DATA | In PLN '000 | | In EUR '000*** | |
|---|---|---|---|---|
| | First half of 2017 | First half of 2016 | First half of 2017 | First half of 2016 |
| **Condensed Interim Consolidated Financial Statements data** | | | | |
| Interest income | 642,219 | 623,641 | 151,203 | 142,368 |
| Fee and commission income | 332,082 | 321,186 | 78,185 | 73,322 |
| Profit before tax | 276,070 | 408,629 | 64,997 | 93,284 |
| Net profit | 200,639 | 326,349 | 47,238 | 74,500 |
| Comprehensive income | 284,587 | 319,661 | 67,003 | 72,974 |
| Changes in net cash | (95,784) | (1,265,144) | (22,551) | (288,813) |
| Total assets* | 44,592,483 | 45,209,916 | 10,550,688 | 10,219,240 |
| Amounts due to banks* | 2,609,453 | 2,310,742 | 617,403 | 522,320 |
| Amounts due to customers* | 32,412,062 | 33,936,511 | 7,668,771 | 7,671,002 |
| Equity | 6,482,825 | 6,558,730 | 1,533,852 | 1,482,031 |
| Share capital | 522,638 | 522,638 | 123,657 | 118,097 |
| Number of shares (in pcs) | 130,659,600 | 130,659,600 | 130,659,600 | 130,659,600 |
| Book value per share (PLN/EUR) | 49,62 | 50.20 | 11.74 | 11.34 |
| Total capital adequacy ratio (in %)* | 17.7 | 17.0 | 17.7 | 17.0 |
| Earnings per share (PLN/EUR) | 1.54 | 2.50 | 0.36 | 0.57 |
| Diluted earnings per share (PLN/EUR) | 1.54 | 2.50 | 0.36 | 0.57 |
| **Condensed Interim Stand-alone Financial Statements data** | | | | |
| Interest income | 641,594 | 622,721 | 151,056 | 142,158 |
| Fee and commission income | 299,886 | 300,443 | 70,605 | 68,586 |
| Profit before tax | 286,710 | 419,562 | 67,502 | 95,779 |
| Net profit | 213,930 | 338,256 | 50,367 | 77,219 |
| Comprehensive income | 298,071 | 330,828 | 70,177 | 75,523 |
| Changes in net cash | (95,765) | (1,265,019) | (22,547) | (288,784) |
| Total assets* | 44,396,062 | 45,091,648 | 10,504,214 | 10,192,506 |
| Amounts due to banks* | 2,609,338 | 2,303,627 | 617,376 | 520,711 |
| Amounts due to customers* | 32,428,902 | 34,031,947 | 7,672,756 | 7,692,574 |
| Equity | 6,430,109 | 6,501,807 | 1,521,379 | 1,469,169 |
| Share capital | 522,638 | 522,638 | 123,657 | 118,097 |
| Number of shares (in pcs) | 130,659,600 | 130,659,600 | 130,659,600 | 130,659,600 |
| Book value per share (PLN/EUR) | 49.21 | 49.76 | 11.64 | 11.24 |
| Total capital adequacy ratio (in %)* | 17.4 | 16.8 | 17.4 | 16.8 |
| Earnings per share (PLN/EUR) | 1.64 | 2.59 | 0.39 | 0.59 |
| Diluted earnings per share (PLN/EUR) | 1.64 | 2.59 | 0.39 | 0.59 |
| Declared or paid dividends per share (PLN/EUR)** | 4.53 | 4.68 | 4.53 | 4.68 |

**Comparative data according to balance sheet as at 31 December 2016.*

***The presented ratios relate respectively to dividend approved for the distribution of 2016 profit and dividend paid in 2016 from the distribution of 2015 profit.*

****The following exchange rates were applied to convert PLN to EUR: for the statement of financial position items- average NBP exchange rate as at 30 June 2017 EUR 1 = PLN 4.2265 (as at 31 December 2016: PLN 4,4240; as at 30 June 2016: PLN 4.4255); for the income statement, the statement of comprehensive income and the cash flow statement items – the rate is calculated as the arithmetic mean of NBP exchange rates prevailing as at the last day of each month of the first half of 2017: EUR 1 = PLN 4.2474 (in the first half of 2016: PLN 4.3805).*

*TRANSLATION*

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# OF THE CAPITAL GROUP OF

# BANK HANDLOWY W WARSZAWIE S.A.

# FOR THE 6 MONTH PERIOD ENDED 30 JUNE 2017

AUGUST 2017

**CONTENTS**

## Condensed consolidated income statement

| For a period | | II quarter | I half of the year | II quarter | I half of the year |
|---|---|---|---|---|---|
| | | 01.04. - 30.06. 2017 | 01.01. - 30.06. 2017 | 01.04. - 30.06. 2016 | 01.01. - 30.06. 2016 |
| *PLN'000* | Note | | | | |
| Interest and similar income | 6 | 329,889 | 642,219 | 316,430 | 623,641 |
| Interest expense and similar charges | 6 | (65,816) | (123,870) | (64,095) | (123,920) |
| **Net interest income** | **6** | **264,073** | **518,349** | **252,335** | **499,721** |
| Fee and commission income | 7 | 176,740 | 332,082 | 159,670 | 321,186 |
| Fee and commission expense | 7 | (21,367) | (42,416) | (20,557) | (39,433) |
| **Net fee and commission income** | **7** | **155,373** | **289,666** | **139,113** | **281,753** |
| **Dividend income** | | **8,948** | **8,948** | **7,333** | **7,334** |
| **Net income on trading financial instruments and revaluation** | **8** | **80,296** | **152,931** | **107,006** | **145,236** |
| **Net gain on debt investment securities available-for-sale** | | **10,875** | **15,861** | **14,301** | **20,925** |
| **Net gain on equity investment instruments available-for-sale** | **25** | **3,085** | **3,377** | **93,907** | **93,907** |
| **Net gain/(loss) on hedge accounting** | | **(1,027)** | **3,554** | **3,404** | **7,561** |
| Other operating income | 9 | 9,387 | 16,922 | 8,467 | 26,162 |
| Other operating expense | 9 | (6,589) | (18,095) | (6,222) | (13,843) |
| **Net other operating income and expense** | **9** | **2,798** | **(1,173)** | **2,245** | **12,319** |
| **General administrative expenses** | **10** | **(271,118)** | **(597,442)** | **(283,886)** | **(578,394)** |
| **Depreciation and amortization** | | **(18,833)** | **(35,479)** | **(17,345)** | **(35,894)** |
| **Profit on sale of other assets** | | **28** | **30** | **78** | **87** |
| **Net impairment loss on financial assets and provisions for granted financial liabilities and guarantees** | **11** | **(13,292)** | **(42,706)** | **(20,011)** | **(14,492)** |
| **Operating income** | | **221,206** | **315,916** | **298,480** | **440,063** |
| **Share in net profits of entities valued at equity method** | | **263** | **265** | **79** | **78** |
| **Tax on some financial institutions** | | **(20,518)** | **(40,111)** | **(18,375)** | **(31,512)** |
| **Profit before tax** | | **200,951** | **276,070** | **280,184** | **408,629** |
| **Income tax expense** | **12** | **(42,968)** | **(75,431)** | **(58,206)** | **(82,280)** |
| **Net profit** | | **157,983** | **200,639** | **221,978** | **326,349** |
| Including: | | | | | |
| Net profit attributable to Bank's shareholders | | | 200,639 | | 326,349 |
| Weighted average number of ordinary shares (in pcs) | | | 130,659,600 | | 130,659,600 |
| Earnings per share (in PLN) | | | 1.54 | | 2.50 |
| Diluted net earnings per share (in PLN) | | | 1.54 | | 2.50 |

Explanatory notes on pages 11-42 are integral part of the condensed interim consolidated financial statements.

## Condensed consolidated statement of comprehensive income

| For a period | | II quarter | I half of the year | II quarter | I half of the year |
|---|---|---|---|---|---|
| | | 01.04. - 30.06. 2017 | 01.01. - 30.06. 2017 | 01.04. - 30.06. 2016 | 01.01. - 30.06. 2016 |
| *PLN'000* | Note | | | | |
| **Net profit** | | **157,983** | **200,639** | **221,978** | **326,349** |
| **Other comprehensive income, that might be subsequrently reclassified to profit or loss** | | | | | |
| Changes in value of available-for-sale financial assets (net) | 13 | 50,301 | 82,308 | (102,059) | (7,445) |
| Currency translation differences | | 10 | (243) | 204 | 757 |
| **Other comprehensive income, that cannot be subsequrently reclassified to profit or loss** | | | | | |
| Net actuarial profits on specific services program valuation | | 1,883 | 1,883 | - | - |
| **Other comprehensive income net of tax** | | **52,194** | **83,948** | **(101,855)** | **(6,688)** |
| **Total comprehensive income** | | **210,177** | **284,587** | **120,123** | **319,661** |

| | | | | | |
|---|---|---|---|---|---|
| Including: | | | | | |
| Comprehensive income attributable to Bank's shareholders | | | 284,587 | | 319,661 |

Explanatory notes on pages 11-42 are integral part of the condensed interim consolidated financial statements.

## Condensed consolidated statement of financial position

| *PLN'000* | As at<br>Note | 30.06.2017 | 31.12.2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with the Central Bank | | 469,006 | 665,755 |
| Amounts due from banks | 14 | 748,409 | 587,087 |
| Financial assets held-for-trading | 15 | 1,872,526 | 3,781,405 |
| Hedging derivatives | | 857 | 12,244 |
| Debt securities available-for-sale | 16 | 19,480,250 | 19,072,371 |
| Equity investments valued at equity method | | 10,686 | 10,471 |
| Equity investments available for sale | | 23,762 | 22,842 |
| Amounts due from customers | 17 | 19,718,046 | 18,860,053 |
| Tangible fixed assets | | 334,963 | 342,971 |
| Intangible assets | | 1,367,963 | 1,350,861 |
| Current income tax receivables | | - | 13,901 |
| Deferred tax asset | 18 | 200,879 | 198,383 |
| Other assets | 19 | 349,706 | 289,644 |
| Non-current assets held-for-sale | 20 | 15,430 | 1,928 |
| **Total assets** | | **44,592,483** | **45,209,916** |
| **LIABILITIES** | | | |
| Amounts due to banks | 21 | 2,609,453 | 2,310,742 |
| Financial liabilities held-for-trading | 15 | 1,296,396 | 1,305,614 |
| Hedging derivatives | | 37,336 | 39,897 |
| Amounts due to customers | 22 | 32,412,062 | 33,936,511 |
| Provisions | | 15,049 | 22,856 |
| Current income tax liabilities | | 33,096 | - |
| Other liabilities | 23 | 1,706,266 | 803,846 |
| **Total liabilities** | | **38,109,658** | **38,419,466** |
| **EQUITY** | | | |
| Ordinary shares | | 522,638 | 522,638 |
| Share premium | | 3,003,969 | 3,003,082 |
| Revaluation reserve | | (132,535) | (214,843) |
| Other reserves | | 2,897,885 | 2,885,044 |
| Retained earnings | | 190,868 | 594,529 |
| **Total equity** | | **6,482,825** | **6,790,450** |
| **Total liabilities and equity** | | **44,592,483** | **45,209,916** |

Explanatory notes on pages 11-42 are integral part of the condensed interim consolidated financial statements.

## Condensed consolidated statement of changes in equity

| *PLN '000* | Ordinary shares | Share premium | Revaluation reserve | Other reserves | Retained earnings | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2017** | **522,638** | **3,003,082** | **(214,843)** | **2,885,044** | **594,529** | **-** | **6,790,450** |
| Total comprehensive income, including: | - | - | 82,308 | 1,640 | 200,639 | - | 284,587 |
| Net profit | - | - | - | - | 200,639 | - | 200,639 |
| Currency translation differences from the foreign operations' conversion | - | - | - | (243) | - | - | (243) |
| Net valuation of available-for-sale financial assets | - | - | 82,308 | - | - | - | 82,308 |
| Net actuarial profits on specific services program valuation | - | - | - | 1,883 | - | - | 1,883 |
| Dividends to be paid | - | (129) | - | | (592,083) | - | (592,212) |
| Transfer to capital | - | 1,016 | - | 11,201 | (12,217) | - | - |
| **Balance as at 30 June 2017** | **522,638** | **3,003,969** | **(132,535)** | **2,897,885** | **190,868** | **-** | **6,482,825** |

| *PLN '000* | Ordinary shares | Share premium | Revaluation reserve | Other reserves | Retained earnings | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | **522,638** | **3,001,525** | **(163,613)** | **2,869,509** | **620,597** | **-** | **6,850,656** |
| Total comprehensive income, including: | - | - | (7,445) | 757 | 326,349 | - | 319,661 |
| Net profit | - | - | - | - | 326,349 | - | 326,349 |
| Currency translation differences from the foreign operations' conversion | - | - | - | 757 | - | - | 757 |
| Net valuation of available-for-sale financial assets | - | - | (7,445) | - | - | - | (7,445) |
| Dividends to be paid | - | - | - | - | (611,587) | - | (611,587) |
| Transfer to capital | - | 1,557 | - | 14,504 | (16,061) | - | - |
| **Balance as at 30 June 2016** | **522,638** | **3,003,082** | **(171,058)** | **2,884,770** | **319,298** | **-** | **6,558,730** |

| *PLN '000* | Ordinary shares | Share premium | Revaluation reserve | Other reserves | Retained earnings | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | **522,638** | **3,001,525** | **(163,613)** | **2,869,509** | **620,597** | **-** | **6,850,656** |
| Total comprehensive income, including: | - | - | (51,230) | 1,031 | 601,580 | - | 551,381 |
| Net profit | - | - | - | - | 601,580 | - | 601,580 |
| Currency translation differences from the foreign operations' conversion | - | - | - | 753 | - | - | 753 |
| Net valuation of available-for-sale financial assets | - | - | (51,230) | - | - | - | (51,230) |
| Net actuarial profits on specific services program valuation | - | - | - | 278 | - | - | 278 |
| Dividends paid | - | - | - | - | (611,587) | - | (611,587) |
| Transfer to capital | - | 1,557 | - | 14,504 | (16,061) | - | - |
| **Balance as at 31 December 2016** | **522,638** | **3,003,082** | **(214,843)** | **2,885,044** | **594,529** | **-** | **6,790,450** |

Explanatory notes on pages 11-42 are integral part of the condensed interim consolidated financial statements.

## Condensed consolidated statement of cash flows

| PLN '000 For a period | 01.01. - 30.06. 2017 | 01.01. - 30.06. 2016 |
|---|---|---|
| **A. Cash flows from operating activities** | | |
| **I. Net profit** | **200,639** | **326,349** |
| **II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:** | **(651,973)** | **(1,983,364)** |
| Current and deferred income tax recognized in income statement | 75,431 | 82,280 |
| Share in net profits/(losses) of entities valued at equity method | (265) | (78) |
| Depreciation expense | 35,479 | 35,894 |
| Net impairment due to financial assets value loss | 38,960 | 17,422 |
| Net provisions (recoveries) | 4,451 | (7,336) |
| Net interest income | (518,349) | (499,721) |
| Dividend income from subsidiaries | - | (132) |
| Profit/loss on sale of investments | (3) | (74) |
| Net unrealized exchange differences | 4,674 | 2,762 |
| Other adjustments | (5,295) | (21,643) |
| **Cash flows from operating income before changes in operating assets and liabilities** | **(364,917)** | **(390,626)** |
| **Change in operating assets (excl. cash and cash equivalents)** | **349,849** | **3,987,714** |
| Change in amounts due from banks | (61,606) | 64,968 |
| Change in amounts due from customers | (899,623) | 1,091,523 |
| Change in debt securities available-for-sale | (301,166) | (1,341,118) |
| Change in equity investments | 635 | 213 |
| Change in financial assets held-for-trading | 1,889,653 | 4,627,379 |
| Change in derivative securities | 11,387 | 1,795 |
| Change in other assets | (289,431) | (457,046) |
| **Change in operating liabilities (excl. cash and cash equivalents)** | **(636,905)** | **(5,580,452)** |
| Change in amounts due to banks | 358,721 | (4,557,267) |
| Change in amounts due to customers | (1,285,738) | (85,899) |
| Change in liabilities held-for-trading | (9,218) | (1,629,031) |
| Change in amounts due to hedging derivatives | (2,561) | (14,978) |
| Change in other liabilities | 301,891 | 706,723 |
| **Interest received** | **654,865** | **687,289** |
| **Interest paid** | **(125,937)** | **(127,404)** |
| **Income tax paid** | **(51,654)** | **(88,708)** |
| **III. Net cash flows from operating activities** | **25,940** | **(1,185,838)** |
| **B. Cash flows from investing activities** | | |
| Purchase of tangible fixed assets | (21,744) | (11,503) |
| Disposal of tangible fixed assets | 120 | 1,254 |
| Purchase of intangible assets | (34,803) | (12,105) |
| Disposal of fixed assets/liabilities held-for-sale | - | 73 |
| **Dividends received** | - | 132 |
| **Net cash flows from investing activities** | **(56,427)** | **(22,149)** |
| **C. Cash flows from financing activities** | | |
| Paid dividends | (324) | (100) |
| Purchase of own shares | - | (2,711) |
| Repayment of long-term loans from financial sector | (55,882) | (58,168) |
| **Net cash flows from financing activities** | **(56,206)** | **(60,979)** |
| **D. Exchange rates differences resulting from cash and cash equivalent calculation** | **(9,091)** | **3,822** |
| **E. Net increase/(decrease) in cash and cash equivalent** | **(95,784)** | **(1,265,144)** |
| **F. Cash and cash equivalent at the beginning of reporting period** | **672,882** | **2,354,352** |
| **G. Cash and cash equivalent at the end of reporting period** (see note 25) | **577,098** | **1,089,208** |

Explanatory notes on pages 11-42 are integral part of the condensed interim consolidated financial statements.

## Supplementary notes to the condensed interim consolidated financial statements

## 1. General information about the Capital Group ("The Group")

Bank Handlowy w Warszawie S.A. ("the Bank") Head Office is located in Warsaw at Senatorska 16, 00-923 Warsaw. The Bank was established on the basis of Notarial Deed of 13 April 1870 and was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000001538 and was granted a statistical REGON No. 000013037 and tax identification No. (NIP) 526-030-02-91.

The Bank and its subsidiaries are expected to continue the business activity in the forseeable future.

Share equity of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common shares, with par value of PLN 4.00 per share. The Bank is a listed company on the Stock Exchange in Warsaw.

The Group is a member of Citigroup Inc. The bank is a subsidiary of Citibank Overseas Investments Corporation, with headquarters in New Castle, USA a subsidiary of Citibank N.A, with headquarters in New York, USA which is the ultimate parent company of the Bank.

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on the domestic and foreign markets. Additionally, the Group conducts brokerage operations through its subsidiary.

These condensed interim consolidated financial statements present financial data of the Capital Group of Bank Handlowy w Warszawie S.A., that is composed of Bank Handlowy w Warszawie S.A. as the parent company and its subsidiaries: Dom Maklerski Banku Handlowego S.A., Handlowy-Leasing Sp. z o.o., Handlowy Investmens S.A., PPH Spomasz Sp. z o.o. w likwidacji and Handlowy Inwestycje Sp. z o.o.

In the first half of 2017 there were no changes in the structure of Group's entities.

## 2. Declaration of conformity

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting, adopted by European Union, and other applicable regulations. These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the financial year ended 31 December 2016.

In accordance with the Decree of the Ministry of Finance dated 19 February 2009, regarding current and periodic information provided by issuers of securities, and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2014, No. 133, as amended) the Bank is obliged to publish its financial results for the six-month period ended 30 June 2017 which is deemed to be the current interim financial reporting period.

These condensed consolidated interim financial statements were approved by the Management Board on 21 August 2017.

## 3. Significant accounting policies

Condensed interim consolidated financial statements of the Group for the first half of 2017 have been prepared in accordance with accounting policies applied and summarized in the annual consolidated financial statements of the Group for the financial year ended 31 December 2016.

The preparation of condensed interim consolidated financial statements of the Group with accordance to International Financial Reporting Standards requires from the Management to make certain estimates and adopt related assumptions that affect the amounts reported in the financial statements. This financial statement is based on the same estimation rules, which were used in the annual financial statements of the Group for the financial year ended 31 December 2016, including the reasons and sources of uncertainty as at the balance sheet date.

The most significant estimates made for the 6 month period ended 30 June 2017, concern:

- Impairment of financial assets,
- Fair value of derivatives,
- Employee benefits.

The condensed interim consolidated financial statements of the Group have been prepared for the period from 1 January 2017 to 30 June 2017 and from 1 April 2017 to 30 June 2017, and for the consolidated statements of financial situation as at 30 June 2017. Comparable financial data are presented for the period from 1 January 2016 to 30 June 2016 and from 1 April 2016 to 30 June 2016, and for consolidated statement of financial position as at 31 December 2016.

The consolidated financial statements are presented in PLN (currency of presentation), rounded to the nearest thousand.

## IFRS 9 “Financial Instruments”

**Project and stage of IFRS 9 implementation**

The Group is executing the IFRS 9 implementation under the leadership of the Steering Committee, which includes, among others, board members responsible for the areas of finance and risk. In order to confirm the adequacy of adopted principles, the Group is benefiting from services provided by professional external entity.

The key assumption standing behind implementation schedule was to provide sufficient time for the Bank to conduct independent validation of newly prepared tools. The review is to cover a wide range of aspects including: correctness of methodological assumptions, assessment whether regulatory requirements are met, adequacy of the data used, quantitative tests and correctness of tools implementation in Bank’s production environment. Results of the validation process, including an evaluation of the correctness of implementation in the Bank’s systems is scheduled for the fourth quarter of 2017 year

The last point in the schedule planned for the end of 2017 is a series of training courses for Bank employees aimed at broadening knowledge about the changes.

The whole process of implementation, as per expectations of European Securities and Markets Authority, is monitored by the internal Audit Committee.

**Classification and valuation**

The Bank has made an analysis of its financial instruments contracts, in order to assess their contractual features according to IFRS 9 classification and valuation requirements. The final assessment of adequate method of classification and valuation, related to particular elements is during the process of elaboration.

Based on the history and plans for approach to management of assets in respect of the way cash flows from loan contracts are realized, Bank infers that business model assessment does not provoke significant changes in classification and measurement compared current practice under IAS 39. Bank grants loans and other forms of financing currently classified as loans under IAS 39 in order to obtain cash flows resulting from repayment of principal and interest only. Portfolio sales take place very rarely and involve only the low quality credit portfolio.. Solely, in case of confirmation of the particular form of financing or its granting due to the sale purpose, the Bank will classified those portfolios as ‘held-for-trade’

In the retail loan portfolio Bank holds credit card products and installment loans for credit card customers in which, according to initial assessment, there is a leverage formula. The Bank and external entity, initiated the process of creating respective valuation models, of portfolios in fair value through profit or loss. For a current stage of work it is not possible to estimate impact of that measurement on the financial statement of the Bank.

The process of verification the SPPI test, reaches its final stage, whereas the confirmation of the Bank’s assessment and conclusion is expected to be terminated in the third quarter of the year. Based on initial assessment Bank does not consider fair value measurement of corporate loans.

Bank has not purchased any portfolios and in the processes of restructuring of contracts have not identified situations requiring derecognition form balance sheet. At present, the Bank is analyzing whether it is indispensable to present credit-impaired assets (POCI) in accordance with the restructuring process practice.

All the above aspects, in order to obtain assurance that conclusions reached by Bank and requirements identified are correct are verified by independent professional entity.

**Impairment**

The Bank started implementation of IFRS 9 in 2016, at first focusing on checking the adequacy of the existing in Bank tools and models to the impairment requirements defined in Standard as well as on identifying gaps in the processes used to calculate provisions. Review has covered all existing products and portfolios. Bank adopted implementation schedule according to identified needs.

Implementation plan includes quantitative elements related to the analytical part, understood as the development of existing and construction of new risk assessment tools / models as well as qualitative elements, including changes in internal rules governing process of credit exposures management, provisions calculation and reporting, in particular internal documents regulating these processes. Bank striving to optimize the workload assumed that most of the tasks will be performed in parallel, allowing efficient flow of information between various organizational units of the institution.

According to the adopted schedule, analytical work is divided into two main parts. For customers from Corporate and Commercial sectors work will be focused on adjusting existing tools used to assess the creditworthiness of the customer to the requirements of IFRS 9. Due to high credit quality of the portfolio, and hence low default rates, the biggest challenge is to calibrate PD Life Time model.

Second stream of work is devoted to Retail Banking Sector for which the Bank has partnered with an external consultant to create a tailor-made solution based on credit rating models. The aim is to develop uniform and coherent methodology covering all major products of the Bank. One of the challenges is appropriate calibration of the model, allowing for proper reflection of expected changes in macroeconomic conditions.

In connection with the implementation of standard, according to preliminary estimations, an increase in provision levels is expected which will affect Bank's capital ratios in the coming years. The increase in provisions is related to performing portfolio and has a twofold ground:

a) increase in the coverage for Stage 1 accounts from the period of LIP (Loss Identification Period) to 12 months,
b) necessity for the accounts qualified to Stage 2 to recognize the losses over the entire horizon of a account's life.

Additional volatility of the provision level will be stemming from including in the calculations forward looking factors, especially macroeconomic variables.

Therefore, much emphasis must be put on defining clear and transparent criteria standing behind significant increase in credit risk concept. These criteria should be constant over time, which will enable to conduct an analysis of the reasons for changes in provisions. Bank assumes that above criteria will be based on current credit risk management tools where possible.

It should also be noted that the implementation of these regulations shall not affect the Bank's business model.

**Hedge accounting program**

There will be no changes to hedge accounting program used by Bank both in terms of the nature of the hedge relationship, as well as in respect of amounts. Modifications related to the need to adopt IFRS 9 are limited to internal documentation update and adjustment of the appropriate processes.

## 4. Segment reporting

An operating segment is a separable component of the Group engaged in business activity, generating income and expenses (including those on intragroup transactions between segments), whose operating results are regularly reviewed by the Management Board of parent entity, the chief operating decision maker of the Group, in order to allocate resources and assess its performance.

The Group is managed in two main operating segments – Institutional Banking and Consumer Banking. The valuation of segment's assets and liabilities as well as calculation of its financial results is based on the Group's accounting policies, including intragroup transactions between segments.

The allocation of Group's assets, liabilities, income and expenses to operating segments was made on the basis of internal information prepared for management purposes. Transfer of funds between the Group segments is based on prices derived from market rates. Transfer prices are calculated using the same rules for both segments and any difference results solely from maturity and currency structure of assets and liabilities. The basis for assessment of the segment performance is gross profit or loss.

The Group conducts its operations solely on the territory of Poland.

### Institutional Banking

Within the Institutional Banking segment the Group offers products and provides services to commercial entities, municipalities and public sector. Apart from traditional banking services covering credit and deposit activities, the segment provides services in the area of cash management, trade finance, leasing, brokerage and custody services in respect of securities. It also offers treasury products on financial and commodity markets. In addition, the segment offers the investment banking services on the local and international capital markets, including advisory services as well as obtaining and underwriting financing through public and non-public offerings. The activities also comprise proprietary transactions in the equity, debt and derivative instruments' markets.

### Consumer Banking

Within the Consumer Banking segment the Group provides products and financial services to individual clients, micro enterprises and individual entrepreneurs that are within the framework of Citibusiness offer. Besides managing bank accounts and providing extensive credit and deposit products, the Group offers cash loans, mortgage loans and credit cards. It also provides asset management services and acts as an agent in investment and insurance products sale.

## Consolidated income statement by business segment

| For the period | 01.01 – 30.06.2017 | | | 01.01 – 30.06.2016 | | |
|---|---|---|---|---|---|---|
| *PLN '000* | Institutional Banking | Consumer Banking | Total | Institutional Banking | Consumer Banking | Total |
| Net interest income | 233,289 | 285,060 | 518,349 | 220,919 | 278,802 | 499,721 |
| Internal interest income, including: | (13,789) | 13,789 | - | (20,613) | 20,613 | - |
| Internal income | - | 13,789 | 13,789 | - | 20,613 | 20,613 |
| Internal expenses | (13,789) | - | (13,789) | (20,613) | - | (20,613) |
| Net fee and commission income | 146,807 | 142,859 | 289,666 | 133,022 | 148,731 | 281,753 |
| Dividend income | 1,228 | 7,720 | 8,948 | 844 | 6,490 | 7,334 |
| Net income on financial instruments and revaluation | 137,230 | 15,701 | 152,931 | 128,705 | 16,531 | 145,236 |
| Net gain on debt investment securities available-for-sale | 15,861 | - | 15,861 | 20,925 | - | 20,925 |
| Net gain on capital investment instruments available-for-sale | 3,377 | - | 3,377 | 27,430 | 66,477 | 93,907 |
| Net loss on hedge accounting | 3,554 | - | 3,554 | 7,561 | - | 7,561 |
| Net other operating income | 10,513 | (11,686) | (1,173) | 14,180 | (1,861) | 12,319 |
| General administrative expenses | (271,575) | (325,867) | (597,442) | (251,340) | (327,054) | (578,394) |
| Depreciation and amortization | (9,850) | (25,629) | (35,479) | (10,862) | (25,032) | (35,894) |
| Profit on sale of other assets | 30 | - | 30 | 87 | - | 87 |
| Net impairment loss on financial assets and provisions for granted financial liabilities and guarantees | (11,759) | (30,947) | (42,706) | 17,135 | (31,627) | (14,492) |
| **Operating income** | **258,705** | **57,211** | **315,916** | **308,606** | **131,457** | **440,063** |
| Share in net profits/(losses) of entities valued at equity method | 265 | - | 265 | 78 | - | 78 |
| **Tax on some financial institutions** | (29,349) | (10,762) | (40,111) | (22,778) | (8,734) | (31,512) |
| **Profit before tax** | **229,621** | **46,449** | **276,070** | **285,906** | **122,723** | **408,629** |
| Income tax expense | | | (75,431) | | | (82,280) |
| **Net profit** | | | **200,639** | | | **326,349** |

| As at: | 30.06.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| *PLN '000* | Institutional Banking | Consumer Banking | Total | Institutional Banking | Consumer Banking | Total |
| **Total assets** | **37,715,884** | **6,876,599** | **44,592,483** | **38,493,344** | **6,716,572** | **45,209,916** |
| **Total liabilities and shareholders equity, including:** | **31,785,245** | **12,807,238** | **44,592,483** | **32,836,784** | **12,373,132** | **45,209,916** |
| Liabilities | 26,668,337 | 11,441,321 | 38,109,658 | 27,443,762 | 10,975,704 | 38,419,466 |

# 5. Risk Management

## Credit Risk

The main purpose of risk management in the Group is ensuring both high quality of credit portfolio and business activity stabilization through minimizing the risk of credit losses. Credit risk management is executed based on the policies and procedures that consistently and clearly define and communicate standards for risk identification, measurement, acceptance, control, monitoring and reporting.

The Group manages its exposure by identifying and monitoring of limits, set within the capital limits and liquidity norms, taking into account the constraints of external regulations.

The process of active portfolio quality management includes, depending on client type, assigning appropriate risk ratings and internal classification, monitoring days past due as well as application of the relevant remedial or debt collection actions. The Group has put in place a uniform internal system for classification of receivables based on predetermined criteria. Risk rating assignment and classification system are crucial in defining the level of impairment allowances.

The Group recognizes and manages counterparty credit risk in the transactions of financial instruments, based on internal limits on Pre-Settlement and Settlement Exposures. Credit ratings are also given to these exposures.

Due to the execution of the Polish Financial Supervision Authority (KNF) C Recommendation, binding from the 1st of January 2017, the Bank implemented adjustments in the risk management processes. In order to streamline the efficiency of the concentration risk management the following actions had been undertaken: estimation of concentration risk apetite and implementation of its identification, assessment, monitoring and reporting principles. The rules mentioned above not only had been applied in credit risk management, but also in operational, market and liquidity risk. Furthermore, the accountability of the Bank's Management Board and the Supervisory Board related to concentration management was enhanced.

The tables below present the Group's portfolio grouped by receivables from customers impaired and not impaired. The tables also present the details of impairment write-downs. Within impaired receivables there are a portfolio managed based on individual classification (individual assessment) and a portfolio managed based on the delinquency (portfolio assessment). Exposures without impairment are classified based on the internal risk ratings classified from 1 to 7 or higher, where risk category 1 is the best rating.

The internal risk ratings are gained in the complex credit assessment's process, which consists of rating models and methodologies, additional corrections resulting, among others, from the acquired support and collateral, and all the defined processes used in order to get risk ratings.

The risk rating defines the probability of failing to fullfil contract by the debtor from liabilities within 1 year period. Ratings from 1 to 4- inclusive are treated as the equivalent of ratings at investments level of external credit rating agencies, what implies that they indicate low or medium level of credit risk. Ratings below 4- indicate increased credit risk, wherein the rating 7 or higher, means high credit risk and low ability to service debt obligations, even in favorable macroeconomic conditions.

The main indicator of impairment for Global Consumer Banking customers is a delay in payment of: the principal amount and interest; a minimum payable balance; a commission, or an exceeding of credit limit. For the purpose of impairment write-downs, it is assumed that the condition is met when a payment is overdue for at least 90 days at the impairment assessment date.

The maximum Group's credit risk exposure is presented below.

| *PLN '000* | Note | 30.06.2017 | 31.12.2016 |
|---|---|---|---|
| Gross receivables due from the Central Bank | | 63,708 | 3,587 |
| Gross receivables due from banks | 14 | 748,496 | 587,264 |
| Gross receivables due from institutional customers | 17 | 13,430,962 | 12,726,265 |
| Gross receivables due from individual customers | 17 | 6,882,564 | 6,697,209 |
| Debt securities held-for-trading | 15 | 923,144 | 2,605,028 |
| Derivative instruments | 15 | 882,370 | 1,167,134 |
| Hedging derivatives | | 857 | 12,244 |
| Debt securities available-for-sale | 16 | 19,480,250 | 19,072,371 |
| Other financial assets | | 261,801 | 219,105 |
| Contingent liabilities granted | 33 | 17,880,737 | 16,889,165 |
| | | **60,554,889** | **59,979,372** |

Commitment due to customers in terms of credit risk:

| *PLN '000* | 30.06.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| | Receivables from institutional customers | Receivables from individual customers | Receivables from banks | Receivables from institutional customers | Receivables from individual customers | Receivables from banks |
| **Impaired receivables** | | | | | | |
| **Individual assesment** | | | | | | |
| **Gross amount** | **290,627** | **11,334** | **-** | **300,772** | **11,873** | **-** |
| Impairment write-downs | 245,862 | 6,576 | - | 249,373 | 6,232 | - |
| **Net amount** | **44,765** | **4,758** | **-** | **51,399** | **5,641** | **-** |
| | | | | | | |
| **Portfolio assesment** | | | | | | |
| **Gross amount** | **15,237** | **332,591** | **-** | **14,988** | **305,513** | **-** |
| Impairment write-downs | 9,023 | 256,155 | - | 9,840 | 218,241 | - |
| **Net amount** | **6,214** | **76,436** | **-** | **5,148** | **87,272** | **-** |

| *PLN '000* | 30.06.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| | Receivables from institutional customers | Receivables from individual customers | Receivables from banks | Receivables from institutional customers | Receivables from individual customers | Receivables from banks |
| **Not impaired receivables** | | | | | | |
| **By risk rating** | | | | | | |
| Risk rating 1-4- | 8,649,303 | - | 741,022 | 9,142,799 | - | 580,651 |
| Risk rating +5-6- | 4,321,909 | - | 7,474 | 3,071,547 | - | 6,613 |
| Risk rating +7 and greater | 153,886 | - | - | 196,159 | - | - |
| **By delinquency** | | | | | | |
| no delinquency | - | 6,273,140 | - | - | 6,099,137 | - |
| 1–30 days | - | 217,361 | - | - | 233,240 | - |
| 31–90 days | - | 48,138 | - | - | 47,446 | - |
| **Gross amount** | **13,125,098** | **6,538,639** | **748,496** | **12,410,505** | **6,379,823** | **587,264** |
| Impairment write-downs | 22,410 | 55,454 | 87 | 19,426 | 60,309 | 177 |
| **Net amount** | **13,102,688** | **6,483,185** | **748,409** | **12,391,079** | **6,319,514** | **587,087** |
| **Total net value** | **13,153,667** | **6,564,379** | **748,409** | **12,447,626** | **6,412,427** | **587,087** |

| *PLN '000* | 30.06.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| | Receivables from institutional customers | Receivables from individual customers | Receivables from banks | Receivables from institutional customers | Receivables from individual customers | Receivables from banks |
| **Impairment write-downs for impaired receivables** | | | | | | |
| **Impairment write-downs for individually assesed receivables** | **245,862** | **6,576** | **-** | **249,373** | **6,232** | **-** |
| **Impairment write-downs for portfolio assesed receivables** | **9,023** | **256,155** | **-** | **9,840** | **218,241** | **-** |
| **IBNR allowances** | | | | | | |
| **By risk rating** | | | | | | |
| Risk rating 1-4- | 3,042 | - | 51 | 3,322 | - | 88 |
| Risk rating +5-6- | 13,473 | - | 36 | 9,027 | - | 89 |
| Risk rating +7 and greater | 5,895 | - | - | 7,077 | - | - |
| **By delinquency** | | | | | | |
| No delinquency | - | 20,420 | - | - | 21,992 | - |
| 1-30 days | - | 12,605 | - | - | 15,227 | - |
| 31-90 days | - | 22,429 | - | - | 23,090 | - |
| | **22,410** | **55,454** | **87** | **19,426** | **60,309** | **177** |
| **Total impairment write-downs** | **277,295** | **318,185** | **87** | **278,639** | **284,782** | **177** |

Receivables due from individual customers not impaired and without delay in payment in terms of overdue history

| *PLN'000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| **Receivables due from individual customers not impaired and without delay in payment, including:** | **6,273,140** | **6,099,137** |
| receivables at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days) | 377,695 | 365,690 |
| receivables at least once have exceeded 90 days of delay in payment | 5,981 | 5,498 |

Receivables not impaired by delinquency:

| *PLN '000* | 30.06.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| | Receivables from institutional customers | Receivables from individual customers | Receivables from banks | Receivables from institutional customers | Receivables from individual customers | Receivables from banks |
| **Receivables with incurred but not reported (IBNR) losses** | | | | | | |
| Regular receivables | 13,102,683 | 6,273,140 | 748,496 | 12,396,864 | 6,099,137 | 587,264 |
| Overdue receivables, including: | 22,415 | 265,499 | - | 13,641 | 280,686 | - |
| 1 – 30 days | 18,305 | 217,361 | - | 6,312 | 233,240 | - |
| **Gross value** | **13,125,098** | **6,538,639** | **748,496** | **12,410,505** | **6,379,823** | **587,264** |

Structure of derivatives in terms of credit risk

| *PLN '000* | 30.06.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| | Transactions with institutional customers | Transactions with individual customers | Transactions with to banks | Transactions with institutional customers | Transactions with individual customers | Transactions with to banks |
| **Derivatives by risk rating** | | | | | | |
| Risk rating 1-4- | 176,542 | 6,357 | 650,125 | 96,107 | 6,141 | 1,053,076 |
| Risk rating+5-6- | 49,018 | - | 544 | 14,650 | - | 8,242 |
| Risk rating +7 and greater | 641 | - | - | 1,162 | - | - |
| **Total** | **226,201** | **6,357** | **650,669** | **111,919** | **6,141** | **1,061,318** |

Description below presents the classification of exposures in the portfolio of debt securities held for trading and portfolio of debt securities available for sale, according to Fitch agency ratings.

| *PLN '000* | 30.06.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| | Debt securities held-for-trading | Debt securities available-for-sale | Debt securities held-for-trading | Debt securities available-for-sale |
| **Issuer rating by Fitch agency** | | | | |
| A (including from A to AAA) | 923,144 | 19,480,250 | 2,605,028 | 19,072,371 |
| **Total** | **923,144** | **19,480,250** | **2,605,028** | **19,072,371** |

Other financial assets in amount of PLN 261 801thousand on 30 June 2017 (PLN 219,105 thousand in the end of 2016) include receivables with delinquency over 90 days in amount of PLN 1 700 thousand (PLN 1,709 thousand in the end of 2016).

Structure of contingent liabilities in terms of risk rating:

| *PLN'000* | 30.06.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| | Liabilities due to institutional customers | Liabilities due to banks | Liabilities due to institutional customers | Liabilities due to banks |
| **Contingent liabilities granted by risk rating** | | | | |
| Risk rating 1-4- | 7,936,428 | 520,636 | 7,701,340 | 276,957 |
| Risk rating+5-6- | 3,090,926 | 7,701 | 2,828,993 | 9,024 |
| Risk rating +7and greater | 31,912 | - | 33,266 | - |
| **Total** | **11,059,266** | **528,337** | **10,563,599** | **285,981** |

The granted contingent liabilities due to individual customers in terms of overdue history

| *PLN'000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| **Granted contingent liabilities due to individual customers, including:** | **6,293,134** | **6,039,585** |
| contingent liabilities at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days) | 323,690 | 319,995 |
| contingent liabilities at least once have exceeded 90 days of delay in payment | 1,582 | 1,584 |

The Group's ratio of impairment write-downs to receivables is presented in the table below:

| *PLN'000* | **30.06.2017** | **31.12.2016** |
|---|---|---|
| **Gross amount** | | |
| Receivables with recognized impairment, including: | 649,789 | 633,146 |
| Individual assesment | 301,961 | 312,645 |
| Portfolio assesment | 347,828 | 320,501 |
| Receivables without recognized impairment | 20,412,233 | 19,377,592 |
| **Total gross amount** | **21,062,022** | **20,010,738** |
| | | |
| **Impairment write-downs** | | |
| Receivables with recognized impairment, including: | 517,616 | 483,686 |
| Individual assesment | 252,438 | 255,605 |
| Portfolio assesment | 265,178 | 228,081 |
| Receivables without recognized impairment | 77,951 | 79,912 |
| **Impairment write-downs in total** | **595,567** | **563,598** |
| | | |
| **Net amount** | | |
| Receivables with recognized impairment, including: | 132,173 | 149,460 |
| Individual assesment | 49,523 | 57,040 |
| Portfolio assesment | 82,650 | 92,420 |
| Receivables without recognized impairment | 20,334,282 | 19,297,680 |
| **Total net amount** | **20,466,455** | **19,447,140** |
| | | |
| **Ratio of impairment allowances to impaired receivables** | **79.7%** | **76.4%** |

In addition to general principles of credit risk mitigation, the Group has defined specific rules for corporate and retail for acceptance, assessment, establishment and monitoring of various types of collaterals, including warranties, guarantees and similar instruments of support (hereinafter called jointly: collaterals). These principles are used for reducing residual risk associated with taking collaterals.

As at 30 June 2017 in the Group, the financial effect of collaterals (mainly mortgage) for accepted individually assessed impaired amounts due to customers was PLN 43,973 thousand (as at 30 June 2016: PLN 38,527 thousand). This is the amount by which the level of impairment of the value assigned to this portfolio would be higher if the collaterals in flows were not included in the callculation of impairment.

Forborne exposures are identified in the Group within the credit risk management. The Group takes into account "forborne" exposures according to the reporting requirements under the EBA/ITS/2013/03 Technical Standards and document 2012/852 issued by the ESMA.

The Group considers exposures as "forborne" that are in the process of troubled debt restructuring. This is a situation when the debtor is experiencing financial difficulties and BHW grants preferential financing conditions to the debtor that it would not otherwise consider (i.e., off-market terms). Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

The extent to which the financing conditions are changed is determined individually for each debtor in question.

The process of assigning "forborne" status for exposures is closely related to the credit risk management process, including the impairment recognition process for exposures. According to the implemented process of impairment recognition, exposure status change to "forborne" constitutes an evidence of impairment and such exposure is in the portfolio of impaired loans.

The Group assumes, that expousues will remain in"forborne" status until they are entirely paid off.

Exposure values in "forborne" status are insignificant, that is why Group monitors them at total level, without further portfolio splits.

| *PLN'000* | **As at** | |
|---|---|---|
| | **30.06.2017** | **31.12.2016** |
| **Receivables from customers** | | |
| Receivables without recognized impairment, including | 19,663,737 | 18,790,328 |
| non-financial sector entities | 17,836,652 | 17,099,400 |

| *PLN'000* | As at | |
|---|---|---|
| | **30.06.2017** | **31.12.2016** |
| Corporate customers | 11,298,013 | 10,719,577 |
| Individual customers | 6,538,639 | 6,379,823 |
| Receivables with recognized impairment, including: | 649,789 | 633,146 |
| non-financial sector entities | 632,653 | 616,010 |
| Corporate customers, including: | 288,728 | 298,624 |
| „forborne" | 69,129 | 78,766 |
| Individual customers, including: | 343,925 | 317,386 |
| „forborne" | 22,661 | 24,273 |
| **Total gross amount, including:** | **20,313,526** | **19,423,474** |
| non-financial sector entities | 18,469,305 | 17,715,410 |
| Corporate customers, including: | 11,586,741 | 11,018,201 |
| „forborne" | 69,129 | 78,766 |
| Individual customers, including: | 6,882,564 | 6,697,209 |
| „forborne" | 22,661 | 24,273 |
| **Impairment write-off** | **(595,480)** | **(563,421)** |
| On „forborne" receivables | (57,484) | (56,959) |
| **Total net amounts due from customers, including:** | **19,718,046** | **18,860,053** |
| „forborne" receivables | 34,306 | 46,080 |

Gross "Forborne" exposures by period of overdue:

| *PLN'000* | As at | |
|---|---|---|
| | **30.06.2017** | **31.12.2016** |
| Not past due | 33,970 | 49,435 |
| Past due, including: | 57,820 | 53,604 |
| Past due less than 30 days | 2,119 | 2,125 |
| Past due 31 - 90 days | 15,626 | 6,576 |
| Past due over 90 days | 40,075 | 44,903 |
| **Total gross amount** | **91,790** | **103,039** |

## Liquidity Risk

Liquidity risk is defined as the risk of Group's lack of ability to meet its financial commitments to customers or counterparties when due.

The objective of liquidity risk management is to ensure that the Group can meet all commitments to customers when due and to secure liquidity necessary to clear all money market transactions when due.

In the first half of 2017 the Group has not implemented any changes in liquidity risk management processes, procedures, systems and policies.

The supervisory liquidity measures M1-M4 i LCR were as follows:

| | **30.06.2017** | **31.12.2016** | **Change** |
|---|---|---|---|
| M1 - Short-term liquidity gap (PLN) | 6,967,238 | 8,332,306 | (1,365,068) |
| M2 - Short-term liquidity ratio | 1.23 | 1.36 | (0.13) |
| M3 - Coverage of illiquid assets with regulatory capital | 10.14 | 10.33 | (0.19) |
| M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds | 1.51 | 1.54 | -(0.03) |
| LCR | 131% | 136% | (5%) |

The level of modified cash flow gap and the level of liquid assets as at 30 June 2017 and 31 December 2016 are shown below.

The cumulated liquidity gap as at 30 June 2017 in real terms:

| *PLN '000* | Up to 1 month | More than 1 to 3 months | More than 3 months to 1 year | More than 1 year to 2 years | More than 2 years |
|---|---|---|---|---|---|
| Assets | 19,442,340 | 334,112 | 358,349 | - | 24,457,682 |
| Liabilities | 9,327,223 | 4,246,768 | 43,816 | 17,736 | 30,956,940 |
| **Balance-sheet gap in the period** | 10,115,117 | (3,912,656) | 314,533 | (17,736) | (6,499,258) |
| Conditional derivative transactions – inflows | 17,759,695 | 5,199,385 | 7,035,897 | 4,051,081 | 15,425,847 |
| Conditional derivative transactions – outflows | 17,983,629 | 5,187,527 | 7,109,594 | 4,145,416 | 15,264,185 |
| **Off-balance-sheet gap in the period** | (223,934) | 11,858 | (73,697) | (94,335) | 161,662 |
| Potential utilization of credit lines granted | 645,062 | 1,252,179 | - | - | (1,897,241) |
| **Cumulative gap** | 9,246,121 | 4,093,144 | 4,333,980 | 4,221,909 | (218,446) |

The cumulated liquidity gap as at 31 December 2016 in real terms:

| *PLN'000* | Up to 1 month | More than 1 to 3 months | More than 3 months to 1 year | More than 1 year to 2 years | More than 2 years |
|---|---|---|---|---|---|
| Assets | 19,726,589 | 563,913 | 417,261 | - | 24,615,552 |
| Liabilities | 7,899,170 | 4,190,501 | 64,445 | 46,014 | 33,123,185 |
| **Balance sheet gap in the period** | 11,827,419 | (3,626,588) | 352,816 | (46,014) | (8,507,633) |
| Conditional derivative transactions – inflows | 10,159,711 | 3,370,020 | 6,341,294 | 4,169,771 | 17,095,176 |
| Conditional derivative transactions – outflows | 10,123,268 | 3,346,658 | 6,365,283 | 4,227,780 | 17,276,599 |
| **Off-balance-sheet gap in the period** | 36,443 | 23,362 | (23,989) | (58,009) | (181,423) |
| Potential utilization of credit lines granted | 696,104 | 1,351,335 | - | - | (2,047,439) |
| **Cumulative gap** | 11,167,758 | 6,213,197 | 6,542,024 | 6,438,001 | (203,616) |

Liquid assets and cumulated liquidity gap up to 1 year:

| *PLN'000* | 30.06.2017 | 31.12.2016 | Change |
|---|---|---|---|
| Liquid assets, including: | 20,670,943 | 22,190,847 | (1,519,904) |
| nostro account in NBP and stable part of cash | 267,549 | 513,448 | (245,899) |
| debt securities held-for-trading | 923,144 | 2,605,028 | (1,681,884) |
| debt securities available-for-sale | 19,480,250 | 19,072,371 | 407,879 |
| **Cumulative liquidity gap up to 1 year** | 4,333,980 | 6 542 024 | (2,208,044) |

## Market risk

Market risk is the risk of negative impact on the Group's earnings and equity resulting from changes in market interest rates, foreign exchange rates, equity and commodity prices, as well all volatilities of these rates and prices.

The objective of market risk management is to ensure that the extent of risk accepted within the Bank corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group.

In the first half of 2017 the Group has not made any changes in market risk management processes, procedures, systems and policies.

In market risk management there are two types of portfolios: trading and bank portfolios.

**The following risk measures are applied to bank portfolios:**

- Interest rate gap analysis;
- Value-at-Close and Total Return methods;

- Interest Rate Exposure (IRE); and
- Stress testing.

Interest rate gap analysis uses the schedule of maturities or revaluations of balance-sheet positions, and of derivative instruments used in hedge accounting or qualified as economic hedge for the purpose of establishing the differences between positions whose maturity or interest rate revaluation fall within a given time frame.

The general rule in the interest rate gap analysis is that of classifying transactions to respective bank portfolio position revaluation bands by the contracted or assumed transaction interest rate revaluation dates.

It is assumed that:

- transactions with a fixed interest rate (such as term deposits, interbank deposits, portfolio of debt securities available for-sale with a fixed interest rate, granted loans both repaid in full at maturity and repaid in installments) are classified into appropriate revaluation bands in accordance with their maturity dates;
- transactions with a floating interest rate, updated on the regular basis (primarily, loans granted with interest set based on a specific rate such as, e.g., WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest rate revaluation date;
- transactions with an administrated floating interest rate (i.e., any changes in the interest rate and its revaluation date are reserved to sole decision of the Bank) or undefined maturity or interest rate revaluation date are classified into appropriate revaluation bands in accordance with historically observed or expert assessed shifts in the moment and scale of change in the interest rate of given positions in relation to change in the market interest rates (model of minimizing product margin variability). This group of transactions / balance-sheet positions includes among others: current accounts, card loans, overdraft facilities. Additionally, early loan repayments are taken into account based on analysis of actual repayments made by customers before the due date and product interest rate revaluation profiles are set on that basis. This pertains particularly to installment loans;
- transactions insensitive to changes of interest rates, including cash, fixed assets, equity, other assets/liabilities, are classified into the longest revaluation band;
- transactions executed directly by the FInancial Markets Sub Sector for the purpose of management of interest rate risk and liquidity risk (Financial Markets Sub-Sector's own portfolio) are always classified into appropriate revaluation bands in accordance with the contracted dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation of the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/losses on sale of assets or cancelling of obligations.

The Interest Rate Exposure (IRE) method is used for estimation of potential impact of a specific parallel shift in the interest rate curves on interest income from the bank portfolio before tax which can be earned in a specific period of time. This is a prospective indicator, equivalent to Factor Sensitivity of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years; however, for the purpose of current monitoring and limiting of interest rate risk positions in bank portfolios, the Bank normally applies IRE measures with one-year and five-year time horizons.

Group's IRE measures as at 30 June 2017 and 31 December 2016 are presented below. The list is shown in the main currencies, i.e. PLN, USD and EUR which jointly account to over 90% of Group's balance sheet.

| *PLN'000* | 30.06.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| | **IRE 12M** | **IRE 5L** | **IRE 12M** | **IRE 5L** |
| PLN | 38,810 | 234,993 | 35,351 | 176,849 |
| USD | (2,260) | 288 | 17,212 | 36,974 |
| EUR | (4,749) | (21,948) | (3,349) | (20,704 ) |

Stress tests measure the potential impact of material changes in the level or directionality of interest rate curves on open interest positions in the bank portfolio.

The Group runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and adjusted as appropriate to changes in the market conditions of the Group's operation.

Activities relating to securities available-for-sale are the responsibility of the Assets and Liabilities Management Department within the Financial Markets Sub-Sector. Three basic goals of activities in the portfolio of securities available-for-sale have been defined as follows:

- management of the liquidity;
- hedging against the risk transferred to the Financial Markets Sub-Sectorfrom other organizational units of the Bank or the Group's entities;
- opening of own interest rate risk positions on the Group's books by the Financial Markets Sub-Sector.

In order to avoid excessive fluctuations in the Bank's capital funds, caused by the revaluation of assets held-for-sale, the maximum limits of DV01 (Dollar Value of 1 basis point), that specify potential change of risk position's value for specific curve of interest rate in its specific node (into which are brought all of cash flows in set time interval), caused by movement of market's interest rate up by one basic point for this kind of portfolio. The limits also concern the open positions in derivatives (i.e. interest rate swap transactions), carried out to hedge the fair value of the portfolio.

The table below presents the risk measured with DV01 for the portfolio of securities available-for-sale, including the economic collateral contained in the hedge program (Fair Value Hedge Accounting Program), broken down by currency:

| *PLN'000* | 30.06.2017 | | | Total in the period 01.01.2017 – 30.06.2017 | | |
|---|---|---|---|---|---|---|
| | Total | Securities | IRS | Average | Maximum | Minimum |
| PLN | (1,086) | (2,394) | 1,308 | (771) | (487) | (1,474) |
| USD | (244) | (244) | - | (153) | (44) | (255) |
| EUR | (535) | (535) | - | (545) | (423) | (593) |

| *PLN'000* | 31.12.2016 | | | Total in the period 01.01.2016 – 31.12.2016 | | |
|---|---|---|---|---|---|---|
| | Total | Securities | IRS | Average | Maximum | Minimum |
| PLN | (1,491) | (2,637) | 1,146 | (2,161) | (1,053) | (3,457) |
| USD | (49) | (358) | 309 | (290) | (48) | (955) |
| EUR | (430) | (430) | - | (572) | (208) | (808) |

Both base risk and option risk of bank's portfolio were considered as immaterial.

**The following methods are applicable in measurement of the risk of the trading portfolios:**

- Factor Sensitivity;
- Value at Risk (VaR); and
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a specific change in a market risk factor (e.g., change of the interest rate by 1 basis point at a given point on the interest rate curve, change of the currency exchange rate or share price by 1%).

In the case of interest rates, the applicable sensitivity measure is DV01 (Dollar Value of 1 basis point), which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards, is established for this kind of portfolio

In the case of exchange rate (FX) risk, the Factor Sensitivity value is equal to the value of the FX position in a given currency.

In the case of positions held in equities, the Factor Sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, participation units).

Value at Risk (VaR) is the integrated measure of the market risk of trading portfolios which combines the impact of positions in respective risk factors and accounts for the effect of correlation between the fluctuations of different factors. VaR is applied for the purpose of measuring the potential decrease in the value of a position or portfolio under normal market conditions, at a specific confidence level and within a specific time period. In the case of positions opened in the Group's trading portfolio, VaR is calculated at a 99% confidence level and a one-day holding period.

DV01 as well as VaR for the trading portfolio are calculated net of the economic hedge of the portfolio of securities available-for-sale, i.e., net of derivative instruments intended to hedge the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through the application of relevant risk measurement methods and by the bank portfolio risk limits.

Each day, the Group runs stress tests on the assumption that the risk factors change by more than expected in the Value at Risk scenario, ignoring historical correlations of these factors.

The Group keeps records of exposures of the bank portfolios to market risk in over twenty currencies both for currency positions and exposures to interest rates risk. These exposures are significant only for a few currencies. For a large group of currencies, the exposures are the consequence of a gap between transactions executed on the customer's orders and closing transactions with other wholesale market counterparties. Significant exposures to market risk are opened for PLN, currencies of well-developed markets (predominantly USD and EUR with a lesser focus on GBP, CHF and JPY) and Central European currencies.

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01 in the first half of 2017 are listed in the table below:

| *PLN '000* | 30.06.2017 | 31.12.2016 | in the period 01.01.2017 - 30.06.2017 | | |
|---|---|---|---|---|---|
| | | | Average | Maximum | Minimum |
| PLN | (242) | 267 | 348 | 777 | (242) |
| EUR | 19 | (123) | (18) | 80 | (127) |
| USD | (25) | 9 | (8) | 34 | (139) |

The currency structure of the positions in the first half of 2017 has not changed in comparison with the year 2016, as positions in domestic currency USD and EUR were still the majority. The average exposure to interest rates risk PLN remained on a higher level to 2016, whereas EUR positions were on average lower . The average risk tendency for instruments denominated in PLN amounted to PLN 363 thousand and in EUR it was PLN 42 thousand. The highest exposures were taken in PLN and EUR and were respectively PLN (777) thousand and PLN (127) thousand.

The table below shows the level of risk measured using VaR (excluding exposures resulting from available-for-sale portfolio's economic securities), divided into currency risk and interest rate risk positions in the first half of 2017:

| *PLN'000* | 30.06.2017 | 31.12.2016 | In the period 1.01.2017 – 30.06.2017 | | |
|---|---|---|---|---|---|
| | | | Average | Maximum | Minimum |
| FX risk | 394 | 287 | 1,028 | 4,940 | 100 |
| Interest rate risk | 1,960 | 6,280 | 5,031 | 8,746 | 1,442 |
| Spread risk | 2,435 | 5,046 | 4,804 | 6,278 | 2,313 |
| **Overall risk** | 3,490 | 8,333 | 10,432 | 15,198 | 3,365 |

The overall average price risk of trade portfolios in the first half of 2017 decreaseded by 57% comparing to the average price risk in 2016 and reached the level of PLN 3,5 million, mainly because of the interest rate risk exposure. Considering maximum risk levels, in case of interest rate risk and price risk of the whole trading portfolio they decreased in comparison with the previous year. Maximum price risk amounted to PLN 15,2 million while in 2016 it settled at PLN 18,7 million.

## Capital instruments risk

Dom Maklerski Banku Handlowego S.A. (DMBH) is the Group's key entity transacting capital instruments. In order to run its core business, DMBH has been authorized to run the price risk of trade portfolio of shares, share rights, traded or likely to be traded on Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange or WSE), BondSpot, WIG20 futures and the Indexed Participation Units, as well as shares on the international stock exchanges of companies listed on the WSE. DMBH portfolio's price risk has volume limits for each kind of financial instruments and concentration-warning thresholds for each issuer. For DMBH the potential loss warning thresholds are also applied to stress testing and cumulated loss on the trade portfolio.

## Currency exposure

Currency exposure of Group's assets and liabilities is presented in main currencies in the following table:

### 30 June 2017

| *PLN '000* | Balance-sheet transactions | | Contingent derivative transactions | | Net position |
|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | |
| EUR | 3,832,713 | 4,500,840 | 17,783,179 | 17,036,476 | 78,576 |
| USD | 2,657,496 | 3,834,646 | 13,491,118 | 12,330,111 | (16,143) |
| GBP | 17,539 | 419,807 | 433,591 | 29,934 | 1,389 |
| CHF | 85,518 | 178,477 | 848,676 | 750,022 | 5,695 |
| Other currencies | 35,620 | 126,498 | 1,435,661 | 1,340,998 | 3,785 |
| | **6,628,886** | **9,060,268** | **33,992,225** | **31,487,541** | **73,302** |

**31 December 2016**

| *PLN'000* | Balance-sheet transactions | | Contingent derivative transactions | | Net position |
|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | |
| EUR | 3,164,418 | 4,545,892 | 17,289,321 | 15,769,761 | 138,086 |
| USD | 2,924,954 | 2,887,135 | 7,839,769 | 7,904,888 | (27,300) |
| GBP | 12,336 | 353,722 | 380,457 | 38,651 | 420 |
| CHF | 302,191 | 147,687 | 1,422,369 | 1,579,560 | (2,687) |
| Other currencies | 1,840 | 266,477 | 1,833,809 | 1,569,944 | (772) |
| | **6,405,739** | **8,200,913** | **28,765,725** | **26,862,804** | **107,747** |

## Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, technical systems or from external events.

Operational risk includes technological and technical risk, also outsourcing, malpractice/embezzlement, money laundering, data security, external events (continuity principle), taxation and accounting risk. Moreover, operational risk embraces product, legal, model, staff, concentration, inadequate proceeding and reputation risk, related to operational risk incidents, business and market practice and involved in other types of risk (e.g. credit, counterparty, liquidity, inconsistency).

Operational risk does not cover strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

In the first half of 2017 the Group has not made any changes in control environment.

## Capital adequacy

In the first half of 2017 the Group fulfilled the capital adequacy requirements. Capital adequacy ratio is calculated according to respective regulations.

# 6. Interest income

| *PLN '000* | II quarter 01.04. - 30.06. 2017 | I half of the year 01.01. - 30.06. 2017 | II quarter 01.04. - 30.06. 2016 | I half of the year 01.01. - 30.06. 2016 |
|---|---|---|---|---|
| **Interest and similar income from:** | | | | |
| Balances with the Central Bank | 4,151 | 8,211 | 4,716 | 9,125 |
| Amounts due from banks | 5,989 | 11,955 | 5,343 | 10,688 |
| Amounts due from customers, in respect of: | 228,032 | 447,345 | 203,071 | 402,964 |
| financial sector | 12,445 | 24,356 | 4,224 | 8,681 |
| non-financial sector | 215,587 | 422,989 | 198,847 | 394,283 |
| Debt securities available-for-sale | 77,130 | 150,497 | 86,656 | 166,404 |
| Debt securities held-for-trading | 3,686 | 11,823 | 16,644 | 34,460 |
| Liabilities with negative interest rate | 1,720 | 3,207 | - | - |
| Derivatives in hedge accounting | 9,181 | 9,181 | - | - |
| | **329,889** | **642,219** | **316,430** | **623,641** |
| **Interest expense and similar charges for** | | | | |
| Balances with the Central Bank | - | - | (82) | (82) |
| Amounts due to banks | (8,064) | (15,188) | (11,932) | (27,479) |
| Amounts due to financial sector entities | (13,219) | (26,183) | (16,558) | (28,441) |
| Amounts due to non-financial sector entities | (27,877) | (58,759) | (29,160) | (55,035) |
| Loans and advances acquired | (129) | (306) | (173) | (442) |
| Assets with negative interest rate | (373) | (650) | - | - |
| Derivatives in hedge accounting | (16,154) | (22,784) | (6,190) | (12,441) |
| | **(65,816)** | **(123,870)** | **(64,095)** | **(123,920)** |
| **Net interest income** | **264,073** | **518,349** | **252 335** | **499 721** |

Net interest income for the first half of 2017 includes income on impaired loans of PLN 5,316 thousand (for the first half of 2016: PLN 7,085 thousand).

## 7. Net fee and commission income

| *PLN '000* | II quarter 01.04. - 30.06. 2017 | I half of the year 01.01. - 30.06. 2017 | II quarter 01.04. - 30.06. 2016 | I half of the year 01.01. - 30.06. 2016 |
|---|---|---|---|---|
| **Fee and commission income** | | | | |
| Insurance and investment products distrubution | 17,961 | 35,507 | 18,292 | 44,306 |
| Payment and credit cards | 39,109 | 76,799 | 42,733 | 82,170 |
| Payment services | 26,715 | 52,100 | 26,573 | 52,149 |
| Custody services | 31,501 | 61,157 | 27,881 | 55,768 |
| Cash loans fees | 172 | 337 | 393 | 932 |
| Brokerage activity | 18,791 | 32,204 | 10,669 | 20,755 |
| Clients' cash on account management services | 5,801 | 12,727 | 6,788 | 12,986 |
| Guarantees granted | 4,733 | 9,184 | 4,679 | 9,166 |
| Financial liabilities granted | 1,780 | 3,234 | 1,402 | 2,736 |
| Other | 30,177 | 48,833 | 20,260 | 40,218 |
| | **176,740** | **332,082** | **159,670** | **321,186** |
| **Fee and commission expense** | | | | |
| Payment and credit cards | (7,069) | (14,247) | (7,927) | (14,084) |
| Brokerage activity | (4,430) | (8,439) | (2,981) | (6,351) |
| Fees paid to the National Depository for Securities (KDPW) | (5,022) | (10,056) | (4,513) | (8,973) |
| Brokerage fees | (1,050) | (2,136) | (868) | (2,126) |
| Other | (3,796) | (7,538) | (4,268) | (7,899) |
| | **(21,367)** | **(42,416)** | **(20,557)** | **(39,433)** |
| **Net fee and commission expense** | **155,373** | **289,666** | **139,113** | **281,753** |

The net commission result for the first half of 2017 comprises commission (other than income covered by the calculation of the effective interest rate), which is related to financial assets and liabilities not valued at fair value through profit or loss in the amount of PLN 88,207 thousand (for the first half of 2016: PLN 94,488 thousand) and commission expenses in the amount of PLN 16,060 thousand (for the first half of 2016: PLN 16,333 thousand).

## 8. Net income on financial instruments and revaluation

| *PLN '000* | II quarter 01.04. - 30.06. 2017 | I half of the year 01.01. - 30.06. 2017 | II quarter 01.04. - 30.06. 2016 | I half of the year 01.01. - 30.06. 2016 |
|---|---|---|---|---|
| **Net income on financial instruments valued at fair value through profit or loss** | | | | |
| Debt instruments | 1,850 | 816 | (19,577) | (31,270) |
| Equity instruments | (897) | 893 | (5,033) | (2,823) |
| Derivative instruments, including: | (4,447) | (1,929) | 16,831 | (10,176) |
| Interest rate derivatives | (6,073) | (1,789) | 12,620 | (12,762) |
| | **(3,494)** | **(220)** | **(7,779)** | **(44,269)** |
| **Net income on FX operations** | | | | |
| Operations on FX derivative instruments | (92,213) | (117,692) | 442,279 | 275,571 |
| FX gains and losses (revaluation) | 176,003 | 270,843 | (327,494) | (86,066) |
| | **83,790** | **153,151** | **114,785** | **189,505** |
| **Net income on financial instruments and revaluation** | **80,296** | **152,931** | **107,006** | **145,236** |

Net income on financial instruments and revaluation for the first half of 2017 includes movement in adjustment of the valuation of derivatives from adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN (722) thousand (for the first half of 2016: PLN 5,650 thousand).

Net income on debt instruments includes the net result on trading in: government securities, corporate debt securities and monetary market instruments held-for-trading.

Net income on derivative instruments comprises net income on transactions regarding interest rate swaps, options, futures and other derivatives.

Net profit on foreign exchange includes profit and losses on valuation of assets and liabilities denominated in foreign currency and foreign currency derivatives, such as: forward, CIRS and option contracts. It additionally contains a margin realized on spot and forward currency transactions.

## 9. Net other operating income and expense

| *PLN '000* | II quarter 01.04. - 30.06. 2017 | I half of the year 01.01. - 30.06. 2017 | II quarter 01.04. - 30.06. 2016 | I half of the year 01.01. - 30.06. 2016 |
|---|---|---|---|---|
| **Other operating income** | | | | |
| Income from provision of services for related parties | 1,034 | 3,764 | 1,241 | 4,079 |
| Income from office rental | 2,253 | 4,534 | 2,412 | 4,825 |
| Income from VAT settlement for previous years | - | - | - | 5,845 |
| Reversal of net provisions for litigation | - | - | 1,120 | 3,875 |
| Income from revaluation of fixed assets provisions | 4 059 | 4 059 | - | - |
| Other, including: | 2 041 | 4 565 | 3 694 | 7 538 |
| reimbursement of legal and enforcement costs | 689 | 1 453 | 909 | 1 852 |
| | **9,387** | **16,922** | **8,467** | **26,162** |
| **Other operating expenses** | | | | |
| Amicable procedure and vindication expenses | (2,761) | (5,247) | (2,293) | (5,947) |
| Fixed assets held-for-sale maintenance cost | (21) | (49) | (29) | (68) |
| Net provision for litigation | 294 | (4,951) | - | - |
| Other, including: | (4,101) | (7,848) | (3,900) | (7,828) |
| donation | (884) | (1,788) | (1,063) | (2,116) |
| | **(6,589)** | **(18,095)** | **(6,222)** | **(13,843)** |
| **Net other operating income** | **2,798** | **(1,173)** | **2,245** | **12,319** |

## 10. General administrative expenses

| *PLN '000* | II quarter 01.04. - 30.06. 2017 | I half of the year 01.01. - 30.06. 2017 | II quarter 01.04. - 30.06. 2016 | I half of the year 01.01. - 30.06. 2016 |
|---|---|---|---|---|
| **Staff expenses** | | | | |
| Remuneration costs, including: | (101,605) | (199,519) | (100,709) | (206,637) |
| Costs of retirement benefits | (12,849) | (20,140) | (7,088) | (14,442) |
| Bonuses and rewards including: | (22,968) | (38,855) | (23,074) | (46,260) |
| Payments related to own equity instruments* | (197) | (1,344) | 682 | (3,507) |
| Social security costs | (17,196) | (35,997) | (17,538) | (39,776) |
| | **(141,769)** | **(274,371)** | **(141,321)** | **(292,673)** |
| **Administrative expenses** | | | | |
| Telecommunication fees and hardware purchase costs | (46,374) | (95,910) | (47,689) | (93,873) |
| Costs of external services, including advisory, audit, consulting services | (12,122) | (26,946) | (14,721) | (30,460) |
| Building maintenance and rent costs | (15,812) | (32,918) | (19,305) | (36,290) |
| Marketing costs | (15,485) | (23,827) | (8,421) | (13,619) |

| *PLN '000* | II quarter 01.04. - 30.06. 2017 | I half of the year 01.01. - 30.06. 2017 | II quarter 01.04. - 30.06. 2016 | I half of the year 01.01. - 30.06. 2016 |
|---|---|---|---|---|
| Costs of cash management services, costs of cleaning services and other transaction costs | (8,629) | (17,816) | (9,107) | (18,680) |
| Costs of external services related to distribution of banking products | (6,912) | (13,646) | (3,620) | (7,652) |
| Postal services, office supplies and printmaking costs | (2,484) | (4,827) | (3,021) | (5,848) |
| Training and education costs | (474) | (941) | (482) | (877) |
| Banking supervision costs | (79) | (3,056) | (2,700) | (5,296) |
| Costs paid to Bank Guarantee Fund | (2,622) | (66,016) | (17,163) | (34,478) |
| Other expenses | (18,356) | (37,168) | (16,336) | (38,648) |
| | **(129,349)** | **(323,071)** | **(142,565)** | **(285,721)** |
| **General administrative expenses, total** | **(271,118)** | **(597,442)** | **(283,886)** | **(578,394)** |

**In the first quarter of 2016 a part of provisions was released due to changes in the Bank's approach to awards granted under the CAP, which resulted in a slight impact of its valuation on the II quarter's result. Additionally, in the second quarter of 2016 the provisions for equity awards granted in the form of phantom shares were released due to a decrease in the Bank's shares, which had a positive impact on the financial result.*

Staff expenses include costs of the following benefits paid and payable to current and former members of the Bank's Management Board:

| *000' PLN* | 01.01 – 30.06.2017 | 01.01 – 30.06.2016 |
|---|---|---|
| Short-term employee benefits (services) | 6,084 | 6,497 |
| Long-term employee benefits (services) | 796 | 1,787 |
| Rewards related to own equity instruments | 1,789 | 1,155 |
| | **8,669** | **9,439** |

## Change due to restructuring provision

Table below presents a change of restructuring provisions set on costs of restructuring of workforce and the consumer bank branch network, which started in 2013.

| *000' PLN* | 01.01. – 30.06.2017 | | 01.01. – 30.06.2016 | |
|---|---|---|---|---|
| | Employment restructuring provisions | Branch network restucturing provisions | Employment restructuring provisions | Branch network restucturing provisions |
| **Balance on January 1** | **4,171** | **7,647** | **680** | **1,841** |
| Decreases: | | | | |
| Provisions utilised | (2,399) | (4,687) | - | (869) |
| Provisions release | (121) | (66) | - | (533) |
| **Balance at the end of period** | **1,651** | **2,894** | **680** | **439** |

| *PLN'000* | 01.01. – 31.12.2016 | |
|---|---|---|
| | Employment restructuring provisions | Branch network restucturing provisions |
| **Balance on January 1** | **680** | **1,841** |
| Increases: | | |
| Provisions created | 4,056 | 11,974 |
| Decreases: | | |
| Provisions utilised | (565) | (5,191) |
| Reversal of provisions | - | (977) |
| **Balance at the end of period** | **4,171** | **7,647** |

## 11. Net impairment loss on financial assets and provisions for granted financial liabilities and guarantees

| *PLN'000* | II quarter 01.04. - 30.06. 2017 | I half of the year 01.01. - 30.06. 2017 | II quarter 01.04. - 30.06. 2016 | I half of the year 01.01. - 30.06. 2016 |
|---|---|---|---|---|
| **Impairment allowances for financial assets** | | | | |
| Amounts due from banks | (146) | (270) | (361) | (2,421) |
| Amounts due from customers | (41,746) | (93,447) | (46,976) | (87,445) |
| Receivables from matured derivative transactions | - | (1) | (8) | (15) |
| | **(41,892)** | **(93,718)** | **(47,345)** | **(89,881)** |
| **Reversals of impairment allowances for financial assets** | | | | |
| Amounts due from banks | 163 | 363 | 608 | 3,552 |
| Amounts due from customers | 27,079 | 47,262 | 22,121 | 57,622 |
| Receivables from matured derivative transactions | 50 | 127 | 36 | 790 |
| Recoveries from sold debts | (14) | 45 | 37 | 8,162 |
| Other | 1,306 | 2,902 | 1,182 | 2,335 |
| | **28,584** | **50,699** | **23,984** | **72,461** |
| **Net impairment allowances financial assets** | **(13,308)** | **(43,019)** | **(23,361)** | **(17,420)** |
| Created provisions for granted financial and guarantee commitments | (2,850) | (5,731) | (2,569) | (7,980) |
| Release of provisions for granted financial and guarantee commitments | 2,866 | 6,044 | 5,919 | 10,908 |
| **Net impairment allowances provisions for granted financial and guarantee commitments** | **16** | **313** | **3,350** | **2,928** |
| **Net impairment allowances financial assets and provisions for granted financial and guarantees liabilities** | **(13,292)** | **(42,706)** | **(20,011)** | **(14,492)** |

## 12. Income tax expense

### Recognized in the income statement

| *PLN '000* | II quarter 01.04. - 30.06. 2017 | I half of the year 01.01. - 30.06. 2017 | II quarter 01.04. - 30.06. 2016 | I half of the year 01.01. - 30.06. 2016 |
|---|---|---|---|---|
| **Current tax** | | | | |
| Current year CIT | (68,141) | (96,879) | (60,890) | (66,130) |
| Adjustments for prior years | - | (797) | - | (18,903) |
| | **(68,141)** | **(97,676)** | **(60,890)** | **(85,033)** |
| **Deferred tax** | | | | |
| Net changes on temporary differences | 25,173 | 22,245 | 2,684 | 2,753 |
| | **25,173** | **22,245** | **2,684** | **2,753** |
| **Income tax expense** | **(42,968)** | **(75,431)** | **(58,206)** | **(82,280)** |

### Reconciliation of effective tax rate

| PLN '000 | II quarter 01.04. - 30.06. 2017 | I half of the year 01.01. - 30.06. 2017 | II quarter 01.04. - 30.06. 2016 | I half of the year 01.01. - 30.06. 2016 |
|---|---|---|---|---|
| Profit before tax | 200,951 | 276,070 | 280,184 | 408,629 |
| Income tax at the tax rate of 19% | (38,181) | (52,453) | (53,235) | (77,640) |
| Allowances for impairment losses not deductible for income | (354) | (1,761) | (1,101) | (808) |
| Taxable income not recognized in the income statement | (312) | (399) | (248) | (287) |
| Deductible expenses not recognized in the income statement | (4,711) | (4,692) | (3,942) | (3,872) |

| | | | | |
|---|---|---|---|---|
| Non-taxable income | 6,269 | 6,299 | 5,786 | 7,309 |
| Other permanent differences, including other expenses not deductible for income | (5,679) | (22,425) | (5,466) | (6,982) |
| **Income tax expense** | **(42,968)** | **(75,431)** | **(58,206)** | **(82,280)** |
| **Effective tax rate** | **21.38%** | **27.32%** | **20.77%** | **20.14%** |

### Deferred tax recognized directly in equity

Deferred tax recognised directly in equity as at 30 June 2017 is related to debt and equity instruments available-for-sale and specific services program valuation and equals PLN 31,757 thousand (30 June 2016: PLN 41,301 thousand).

## 13. Statement of changes in other comprehensive income

Deferred income tax and reclassifications recognized in other comprehensive income relate to the valuation of financial assets available-for-sale (AFS) related to revaluation reserve and the valuation of specific services program recognized in the other reserves.

| *PLN '000* | Gross amount | Deferred income tax | Net amount |
|---|---|---|---|
| **Balance as at 1 January 2017** | **(271,083)** | **51,506** | **(219,577)** |
| Change in valuation of AFS | 117,476 | (22,321) | 95,155 |
| Valuation of AFS sold, recognised to income statement | (15,861) | 3,014 | (12,847) |
| Net actuarial profits on specific services program valuation | 2,325 | (442) | 1,883 |
| **Balance as at 30 June 2017** | **(167,143)** | **31,757** | **(135,386)** |

| *PLN '000* | Gross amount | Deferred income tax | Net amount |
|---|---|---|---|
| **Balance as at 1 January 2016** | **(201,990)** | **38,377** | **(163,613)** |
| Change in valuation of AFS | (30,118) | 5,724 | (24,394) |
| Valuation of AFS sold, recognised to income statement | 20,925 | (3,976) | 16,949 |
| **Balance as at 30 June 2016** | **(211,183)** | **40,125** | **(171,058)** |

## 14. Amounts due from banks

| *PLN '000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Current accounts | 108,633 | 8,899 |
| Credits and loans | 2,026 | 913 |
| Receivables due to purchased securities with repurchase agreement | 385,308 | 418,283 |
| Deposits pledged as collateral for derivative transactions and stock exchange transactions | 252,529 | 159,169 |
| **Total gross value** | **748,496** | **587,264** |
| Impairment write- downs | (87) | (177) |
| **Total net value** | **748,409** | **587, 087** |

Movement in amounts due from banks presents as follows:

| *PLN '000* | 01.01. – 30.06. 2017 | 01.01. – 30.06. 2016 |
|---|---|---|
| **As at 1 January** | **(177)** | **(1,750)** |
| Increases (due to): | | |
| Write- downs increase | (270) | (2,421) |
| Other | (3) | (1) |
| Decreases (due to): | | |
| Write-downs release | 363 | 3,552 |
| **As at the end of period** | **(87)** | **(620)** |

As at 30 June 2017 and 31 December 2016 recognized impairment write-downs on amounts due from banks concerned incurred but not reported (IBNR) write-downs.

## 15. Financial assets and liabilities held-for-trading

### Financial assets held-for-trading

| *PLN '000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| **Debt securities held-for-trading** | | |
| Bonds and notes issued by: | | |
| Banks* | 1 | 482 |
| Other financial units | 17,791 | 58,299 |
| Government | 905,352 | 2,546,247 |
| | **923,144** | **2,605,028** |
| Including: | | |
| Listed on the active market | 923,144 | 2,605,028 |
| **Equity instruments held-for-trading** | **67,012** | **9,243** |
| Including: | | |
| Listed on the active market | 67,012 | 9,243 |
| **Derivatives** | **882,370** | **1,167,134** |
| **Financial assets held-for-trading, total** | **1,872,526** | **3,781,405** |

**As at 30 June 2017 securities (bonds) issued by banks in amount PLN 1 thousand is covered by guarantee of State Treasury (31 December 2016: PLN 482 thousand).*

### Financial liabilities held-for-trading

| *PLN '000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Liabilities related to short-sale of securities | 184,724 | 208,106 |
| Derivatives | 1,111,672 | 1,097,508 |
| **Financial liabilities held-for-trading, total** | **1,296,396** | **1,305,614** |

As at 30 June 2017 and 31 December 2016 the Group did not hold any financial assets and liabilities designed at fair value through profit or loss initial recognition.

As at 30 June 2017 and 31 December 2016 derivative financial assets were not adjusted due to counterparty credit risk.

### Derivative financial instruments as at 30 June 2017

| *PLN '000* | Notional value of derivatives with remaining life of | | | | Total | Fair value | |
|---|---|---|---|---|---|---|---|
| | less than three months | between three months and one year | between one year and five years | more than five years | | Assets | Liabilities |
| Interest rate instruments | 15,106,018 | 20,330,569 | 75,975,581 | 26,694,967 | 138,107,135 | 589,973 | 793,471 |
| Currency instruments | 23,773,829 | 6,983,550 | 2,483,172 | 30,801 | 33,271,352 | 270,200 | 295,630 |
| Securities transactions | 2,212,357 | 6,697 | - | - | 2,219,054 | 3,864 | 4,216 |
| Commodity transactions | 131,037 | 137,609 | 30,888 | - | 299,534 | 18,333 | 18,355 |
| **Derivative instruments total** | **41,223,241** | **27,458,425** | **78,489,641** | **26,725,768** | **173,897,075** | **882,370** | **1,111,672** |

## Derivative financial instruments as at 31 December 2016

| *PLN '000* | Notional value of derivatives with remaining life of | | | | Total | Fair value | |
|---|---|---|---|---|---|---|---|
| | less than three months | between three months and one year | between one year and five years | more than five years | | Assets | Liabilities |
| Interest rate instruments | 19,554,407 | 23,382,572 | 57,901,103 | 24,179,834 | 125,017,916 | 873,191 | 913,240 |
| Currency instruments | 13,847,064 | 5,701,087 | 2,130,378 | 37,014 | 21,715,543 | 254,131 | 143,840 |
| Securities transactions | 766,911 | 1,342 | - | - | 768,253 | 2,812 | 3,331 |
| Commodity transactions | 149,986 | 358,250 | 41,072 | - | 549,308 | 37,000 | 37,097 |
| **Derivative instruments total** | **34,318,368** | **29,443,251** | **60,072,553** | **24,216,848** | **148,051,020** | **1,167,134** | **1,097,508** |

## 16. Debt securities available-for-sale

| *PLN '000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Bonds and notes issued by: | | |
| Central Banks* | - | 2,239,715 |
| Other banks, including: | 67,589 | 66,384 |
| Covered bonds in fair value hedge accounting | 34,633 | - |
| Central governments, including: | 19,412,661 | 16,766,272 |
| Covered bonds in fair value hedge accounting | 4,523,172 | 4,794,696 |
| **Debt securities available-for-sale, total** | **19,480,250** | **19,072,371** |
| Including: | | |
| Listed instruments on the active market | 19,480,250 | 16,832,656 |
| Unlisted instruments on the active market | - | 2,239,715 |

**As at 30 June 2017 part of securities (bonds) issued by other banks in the amount of PLN 67,589 thousand is covered by guarantee of State Treasury (31 December 2016: PLN 66,384 thousand)*

## 17. Amounts due from customers

| *PLN '000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| **Amounts due from financial sector entities** | | |
| Loans, placements and advances | 270,190 | 293,117 |
| Debt securities unlisted | 1,200,133 | 1,199,671 |
| Guarantee funds and deposits pledged as collateral | 372,621 | 211,360 |
| Other receivables | 1,277 | 3,916 |
| **Total gross value** | **1,844,221** | **1,708,064** |
| Impairment write-downs | (19,576) | (17,810) |
| **Total net value** | **1,824,645** | **1,690,254** |
| | | |
| **Amounts due from non-financial sector entities** | | |
| Loans and advances | 16,919,209 | 16,051,239 |
| Unlisted debt securities | 564,646 | 514,401 |
| Purchased receivables | 965,530 | 1,116,054 |
| Realized guarantees | 1,039 | 1,056 |
| Other receivables* | 18,881 | 32,660 |
| **Total gross value** | **18,469,305** | **17,715,410** |
| Impairment write-downs | (575,904) | (545,611) |
| **Total net value** | **17,893,401** | **17,169,799** |
| | | |
| **Total net value of receivables from customers** | **19,718,046** | **18,860,053** |

**As at 30 June 2017 position "Other receivables" contains leasing receivables in amount PLN 9,169 thousand (31 December 2016: PLN 13,678 thousand).*

The closing balance of impairment recognized on loans and advances to customers consisted of:

| *PLN'000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Portfolio impairment loss | (265,178) | (228,081) |
| Individual impairment loss | (252,438) | (255,605) |
| Incurred but not reported (IBNR) | (77,864) | (79,735) |
| **Impairment allowances, total** | **(595,480)** | **(563,421)** |

Movement in value loss due to receivables from customers consisted of following categories:

| *PLN '000* | 01.01. – 30.06. 2017 | 01.01. – 30.06. 2016 |
|---|---|---|
| **As at 1 January** | **(563,421)** | **(585,406)** |
| Increases (due to): | (93,447) | (98,378) |
| Increase of write downs | (93,447) | (87,445) |
| Other | - | (10,933) |
| Decreases (due to): | 61,388 | 93,474 |
| Release of net write-downs in the period for receivables in respect of matured derivative instrument transactions | 126 | 775 |
| Receivables derecognision | 11,827 | 20,024 |
| Write-downs release | 47,262 | 57,622 |
| Sale of receivables | - | 15,053 |
| Other | 2,173 | - |
| **As at the end of period** | **(595,480)** | **(590,310)** |

## Finance lease receivables

In the fourth quarter 2016, a decision was made on the purchase by the Bank of the remaining working lease portfolio from Handlowy Leasing Sp. z o.o. The transaction was executed at the end of the first quarter 2017.

Leasing products continue to be offered by the Bank and are made available as part of the "open architecture", i.e. the Bank's partnership with organizations from outside its Group.

Amounts due from customers include the following amounts concerning finance lease receivables from non-financial sector entities:

| *PLN '000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Gross finance lease receivables | 9,169 | 13,868 |
| Unrealized finance income | - | (190) |
| **Net finance lease receivables** | **9,169** | **13,678** |

As at 30 June 2017 impairment for finance lease receivables amounted to PLN 4,042 thousand (as at 31 December 2016 amounted PLN 4,204 thousand).

Finance lease income is presented in the 'interest income'.

# 18. Deferred income tax asset

| *PLN'000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Deferred income tax asset | 414,813 | 406,659 |
| Deferred income tax liability | 213,934 | 208,276 |
| **Deferred income tax net asset** | **200,879** | **198,383** |

Deferred income tax asset and liabilities are presented in the statement of financial position after compensation.

## 19. Other assets

| *PLN '000* | **30.06.2017** | **31.12.2016** |
|---|---|---|
| Interbank settlements | 3,211 | 3,556 |
| Settlements related to brokerage activity | 155,730 | 125,766 |
| Income to receive | 72,751 | 65,843 |
| Staff loans out of the Social Fund | 17,285 | 17,719 |
| Sundry debtors | 85,575 | 72,064 |
| Prepayments | 15,154 | 4,696 |
| **Other assets, total** | **349,706** | **289,644** |
| Including financial assets* | 261,801 | 219,105 |

* *Financial assets include all the positions "Other assets", except the positions "Income to receive" and "Prepayments".*

## 20. Non-current assets held-for-sale

As at 30 June 2017, non-current assets held-for-sale portfolio includes Group's real estate worth PLN 1,928 thousand and perpetual usufruct right to property including the improvements located there, worth PLN 13,502 thousand.

Changes in tangible fixed assets were as follows:

| *PLN '000* | **01.01. – 30.06. 2017** | **01.01. – 30.06. 2016** |
|---|---|---|
| **As the beginning of period** | **1,928** | **1,928** |
| Increases (due to):: | | |
| Reclassification from tangible fixed assets | 13,502 | - |
| **As at the end of period** | **15,430** | **1,928** |

The perpetual usufruct right to property including the improvements located there, worth PLN 13,502 thousand, that are under the Group ownership, were reclassified from tangible fixed assets to non-current assets held-for-sale in accordance to the conclusion of Conditional Sale Contract (as at 14 June 2017).

## 21. Amounts due to banks

| *PLN '000* | **30.06.2017** | **31.12.2016** |
|---|---|---|
| Current accounts | 1,220,680 | 1,466,809 |
| Time deposits | 934,707 | 503,520 |
| Credits and loans received | 68,496 | 128,026 |
| Liabilities due to sold securities under repurchase agreements | 385,315 | 212,372 |
| Other liabilities | 255 | 15 |
| **Total amounts due to banks** | **2,609,453** | **2,310,742** |

## 22. Amounts due to customers

| *PLN '000* | **30.06.2017** | **31.12.2016** |
|---|---|---|
| **Deposits from financial sector entities** | | |
| Current accounts | 1,082,047 | 671,625 |
| Deposits | 3,957,394 | 4,024,501 |
| | **5,039,441** | **4,696,126** |
| **Deposits from non-financial sector entities** | | |
| Current accounts, including: | 20,682,614 | 22,301,469 |
| institutional customers | 9,505,637 | 10,895,348 |
| individual customers | 8,755,223 | 8,280,082 |
| budgetary units | 2,421,754 | 3,126,039 |

| | | |
|---|---|---|
| Time deposits, including: | 6,510,720 | 6,821,412 |
| institutional customers | 4,234,122 | 5,041,859 |
| individual customers | 1,677,974 | 1,668,893 |
| budgetary units | 598,624 | 110,660 |
| | **27,193,334** | **29,122,881** |
| | | |
| **Total deposits** | **32,232,775** | **33,819,007** |
| | | |
| **Other liabilities** | | |
| Other liabilities, including: | 179,287 | 117,504 |
| cash collateral | 143,451 | 80,622 |
| **Total other liabilities** | **179,287** | **117,504** |
| | | |
| **Total amounts due to customers** | **32,412,062** | **33,936,511** |

## 23. Other liabilities

| *PLN '000* | **30.06.2017** | **31.12.2016** |
|---|---|---|
| Staff benefits | 45,416 | 43,823 |
| Interbank settlements | 191,988 | 145,531 |
| Inter-branch settlements | 286 | 718 |
| Settlements related to securities trade | 131,084 | - |
| Settlements related to brokerage activity | 150,092 | 129,071 |
| Settlements with Tax Office and National Insurance (ZUS) | 36,931 | 25,684 |
| Dividends to pay | 591,888 | - |
| Sundry creditors | 157,242 | 144,561 |
| Accruals: | 376,083 | 289,420 |
| Provision for employee payments | 85,603 | 93,949 |
| Provision for employee retirement | 48,135 | 41,936 |
| IT services and bank operations support | 69,022 | 62,098 |
| Consultancy services and business support | 33,121 | 24,091 |
| Other | 140,202 | 67,346 |
| Deferred income | 25,256 | 25,038 |
| **Other liabilities, total** | **1,706,266** | **803,846** |
| Including financial liabilities* | 1,644,079 | 753,124 |

** Financial liabilities include all the positions "Other liabilities", except the positions "Settlements with Tax Office and National Insurance (ZUS)" and "Deferred income".*

## 24. Financial assets and liabilities by maturity date

### As at 30 June 2017

| *PLN '000* | **Note** | **Total** | **Up to 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|---|
| **Amounts due from banks (Gross)** | 14 | 748,496 | 748,496 | - | - | - | - |
| **Financial assets held-for-trading** | | | | | | | |
| Debt securities held-for-trading | 15 | 923,144 | 90,737 | - | 52,055 | 480,085 | 300,267 |
| **Financial assets available-for-sale** | | | | | | | |
| Debt securities available-for-sale | 16 | 19,480,250 | - | - | - | 14,996,109 | 4,484,141 |
| **Amounts due from customers (gross)** | | | | | | | |
| Amounts due from financial sector entities | 17 | 1,844,221 | 362,939 | - | 281,282 | 1,200,000 | - |
| Amounts due from non-financial sector entities | 17 | 18,469,305 | 7,105,500 | 1,332,361 | 1,745,734 | 6,288,389 | 1,997,321 |

| *PLN '000* | Note | Total | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Amounts due to banks** | 21 | 2,609,453 | 2,519,185 | 3,384 | 37,189 | 49,652 | 43 |
| **Amounts due to customers** | | | | | | | |
| Amounts due to financial sector entities: | 22 | 5,039,610 | 4,849,474 | 187,118 | 2,964 | 35 | 19 |
| Amounts due to non-financial sector entities | 22 | 27,372,452 | 26,281,348 | 701,347 | 369,464 | 20,197 | 96 |

### As at 31 December 2016

| *PLN '000* | Note | Total | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Amounts due from banks (Gross)** | 14 | 587,264 | 381,399 | 205,865 | - | - | - |
| **Financial assets held-for-trading** | | | | | | | |
| Debt securities held-for-trading | 15 | 2,605,028 | 313,250 | - | 246,232 | 1,492,755 | 552,791 |
| **Financial assets available-for-sale** | | | | | | | |
| Debt securities available-for-sale | 16 | 19,072,371 | 2,239,715 | - | - | 15,163,320 | 1,669,336 |
| **Amounts due from customers (gross)** | | | | | | | |
| Amounts due from financial sector entities | 17 | 1,708,064 | 198,132 | 70,000 | 239,932 | 1,200,000 | - |
| Amounts due from non-financial sector entities | 17 | 17,715,410 | 6,803,454 | 1,228,782 | 2,064,510 | 5,557,378 | 2,061,286 |
| **Amounts due to banks** | 21 | 2,310,742 | 2,140,202 | 20,897 | 34,627 | 114,977 | 39 |
| **Amounts due to customers** | | | | | | | |
| Amounts due to financial sector entities: | 22 | 4,696,177 | 4,650,566 | 41,959 | 3,633 | - | 19 |
| Amounts due to non-financial sector entities | 22 | 29,240,334 | 28,254,705 | 706,906 | 261,019 | 17,651 | 53 |

## 25. Financial instruments disclosures

### Fair value of financial assets and liabilities

The summary below provides statement of financial position (by category) and fair value information for each category of financial assets and liabilities.

| *PLN '000* | Note | 30.06.2017 | | 31.12.2016 | |
|---|---|---|---|---|---|
| | | Balance value | Fair value | Balance value | Fair value |
| **Assets** | | | | | |
| Amounts due from banks | 14 | 748,409 | 748,409 | 587,087 | 587,071 |
| Amounts due from customers | 17 | 19,718,046 | 19,708,808 | 18,860,053 | 18,878,719 |
| **Liabilities** | | | | | |
| Amounts due to banks | 21 | 2,609,453 | 2,609,758 | 2,310,742 | 2,310,776 |
| Amounts due to customers | 22 | 32,412,062 | 32,411,578 | 33,936,511 | 33,935,951 |

With exception to information provided in the table above and investments in equity instruments available-for-sale evaluated in purchase price, the balance value of other assets and financial liabilities included in the consolidated statement of financial position are equal to fair value due to their short-term nature.

Investments in equity instruments available-for-sale evaluated in purchase price do not have value that is actively priced at the market and their fair value cannot be reliably estimated.

According to the Group's strategy, presented equity investments will be gradually reduced except for selected strategic investments in "infrastructure companies" that provide services to the financial sector. Particular entities will be sold at the most suitable time under market conditions.

In the first half of 2017, among all equity investments, where fair value could not be established, the Group sold Shares in Odlewnie Polskie S.A.The balance value of sold shares amounted to PLN 636 thousand and the profit on sales to PLN 3,377 thousand

In the first half of 2016, among all equity investments, where fair value could not be established, the Group sold Shares in Odlewnie Polskie S.A. The balance value of sold shares amounted to PLN 212 thousand and the profit on sales to PLN 932 thousand.

## Valuation methods and assumptions used for the purposes of fair value

Fair value of assets and financial liabilities are calculated as follows:

- The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are tested and approved before application. As far as possible, only observable data are used in the models, although in some areas, the Bank's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

  The Group applies the following methods of measurement of particular types of derivativeinstruments:
  - FX forwards: discounted cash flow model;
  - options – option market-based valuation model;
  - interest rate transactions – discounted cash flow model;
  - futures – current quotations.

- For valuation of securities' transactions current quotations are used. In case of lack of quotations, adequate models based on discount and forward curves, including decrease of credit spread, if needed, are used for valuation.

- The fair value of other assets and financial liabilities (excluding described above) are estimated in accordance to commonly accepted models of valuation based on discounted cash flow analysis, taking into account fluctuations in market interest rates and changes in margins during the financial period.

## Fair value included in consolidated statement of financial position

Depending on the method of determining fair value, individual financial assets or liabilities are classified into the following categories:

- Level I: financial assets / liabilities valued directly on the basis of prices from an active market where the regular quotations are available and turnover is sufficient

  The active market includes stock and brokerage quotes and quotes in pricing services type systems, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include debt securities held-for-trading or available-for-sale.
- Level II: financial assets / liabilities valued on the basis of models based on input data from the active market, presented in Reuters and Bloomberg systems. Depending on financial instruments, the following specific valuation techniques are used:
  - listed prices for a given instrument or listed prices for an alternative instrument,
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments,
  - other techniques, such as yield curves based on alternative prices for a given financial instrument.
- Level III: financial assets / liabilities valued on the basis of valuation techniques using relevant, non-market parameters.

The tables below present values of financial instruments in the consolidated statement of financial position, in accordance with a fair value classified by above levels.

### As at 30 June 2017

| *PLN '000* | Note | Level I | Level II | Level III | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Financial assets held-for-trading | 15 | 990,155 | 882,371 | - | 1,872,526 |
| Derivatives | | - | 882,370 | - | 882,370 |
| Debt securities | | 923,143 | 1 | - | 923,144 |
| Equity instruments | | 67,012 | - | - | 67,012 |
| Hedge derivatives | | - | 857 | - | 857 |
| Debt securities available-for-sale | 16 | 19,412,661 | 67,589 | - | 19,480,250 |
| Equity investments available for sale | | 1,367 | - | 20,273 | 21,640 |
| **Financial liabilities** | | | | | |
| Financial liabilities held-for-trading | 15 | 184,889 | 1,111,507 | - | 1,296,396 |

| *PLN '000* | Note | Level I | Level II | Level III | Total |
|---|---|---|---|---|---|
| Short sale of securities | | 184,724 | - | - | 184,724 |
| Derivatives | | 165 | 1,111,507 | - | 1,111,672 |
| Hedge derivatives | | - | 37,336 | - | 37,336 |

### As at 31 December 2016

| *PLN '000* | Note | Level I | Level II | Level III | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Financial assets held-for-trading | 15 | 2,613,789 | 1,167,616 | - | 3,781,405 |
| Derivatives | | - | 1,167,134 | - | 1,167,134 |
| Debt securities | | 2,604,546 | 482 | - | 2,605,028 |
| Equity instruments | | 9,243 | - | - | 9,243 |
| Hedge derivatives | | - | 12,244 | - | 12,244 |
| Debt securities available-for-sale | 16 | 16,766,272 | 2,306,099 | | 19,072,371 |
| Equity investments available for sale | | 1,118 | - | 18,965 | 20,083 |
| **Financial liabilities** | | | | | |
| Financial liabilities held-for-trading | 15 | 208,305 | 1,097,309 | - | 1,305,614 |
| Short sale of securities | | 208,106 | - | - | 208,106 |
| Derivatives | | 199 | 1,097,309 | - | 1,097,508 |
| Hedge derivatives | | - | 39,897 | - | 39,897 |

On the 30th of June 2017 the amount of financial assets classified to the Level III includes the share of PLN 20,273 thousand in Visa Inc. On the 31st of December 2016 that amount includes the share of PLN 18,965 thousand in Visa Europe Limited.

The fair value valuation method takes into account the value of shares of Visa Inc. as well as corrections resulting from legal cases (actual and potential) a party of which could be Visa or the Bank.

Changes in financial assets and liabilities in, measured at a fair value that was defined by using relevant parameters not-market based are presented below:

| *PLN '000* | 01.01.-30.06.2017 | 01.01.-31.12.2016 |
|---|---|---|
| | Financial assets available-for-sale | Financial assets available-for-sale |
| | Equity investments | Equity investments |
| **As at 1 January** | **18,965** | **18 965** |
| Derecognition of valuation of shares | - | - |
| Recognition of valuation of shares | - | - |
| Revaluation | 1,308 | 1,308 |
| **As at the end of period** | **20,273** | **20,273** |

As a result of the final allocation of settlement of the Visa Europe Limited takeover by Visa Inc. in the first half of 2016 the Bank recognized the profit on sale of shares and minority interest (AFS) in the amount of PLN 92,975 thousand, including received cash, deferred payment payable after 3 years since the date of the transaction and the valuation of Visa Inc. preferred shares.

In the consolidated statement of financial position, except for assets described above, there are assets available-for-sale, whose fair value decreased by sale cost is smaller than its carrying amount. In consequence, they are positioned in the consolidated statement of financial position at fair value, which as at 30 June 2017 was PLN 1,928 thousand (31 December2016: PLN 1,928 thousand). The exception is the perpetual usufruct right to property including the improvements located there, worth PLN 13,502 thousand (book value), that are under the Group ownership.(For details see Note 20)

In the first half of 2017 the Group has made no transfers between levels of instruments' fair value due to established method of setting fair value.

In the first half of 2017, the Group has not made any changes in classification criteria of financial instruments (presented in the consolidated statement of financial position at fair value) to each category reflecting the fair value (level I, level II, level III).

In the first half of 2017, the Group has not made any changes in financial assets classification that could result from asset's purpose or usage change.

In the first half of 2017 there was no change in the business or economic situation, that could influence the fair value of Group's financial assets or liabilities, regardless of their presentation in the fair value or amortized cost.

As at 30 June 2017, there was no substantial change in the financial instruments fair value, classified to the available-for-sale portfolio in comparison to the end of 2016 reporting period. However, an increase of that portfolio was mainly due to the enhancement of the securities denominated in euro portfolio.

The decrease in the value of the held-for-trade financial instruments portfolio in comparison to December 2016 proceeds from the sale of Polish securities denominated in Polish zlotys.

## 26. Hedge accounting

The Group hedges against the risk of change in fair value of fixed interest rate debt securities available for sale. The hedged risk results from changes in interest rates.

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

The gain or loss on the hedged item attributable to the hedged risk is recognized in result on hedge accounting in the income statement. The remainder of the change in the fair value valuation of debt securities available for sale is recognized in other comprehensive income. Interest income on debt securities are recognized in net interest income.

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognized in result on hedge accounting in the income statement. Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedge are presented in the interest result.

### Fair value of instruments within fair value hedge accounting of securities

| *PLN'000* | 30.06.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| | Nominal value | Fair value | Nominal value | Fair value |
| **Hedged instruments** | | | | |
| Debt securities available-for-sale | | | | |
| Treasury bonds | 4,085,000 | 4,523,172 | 4,604,396 | 4,794,696 |
| **Bonds issued by banks** | 30,000 | 34,487 | - | - |
| **Hedging instruments** | | | | |
| Derivative instruments | | | | |
| Interest rate swaps – positive valuation | 138,000 | 857 | 2,431,660 | 12,244 |
| Interest rate swaps – negative valuation | 3,978,000 | 37,336 | 2,172,736 | 39,897 |

## 27. Statement of cash flows

| *PLN'000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| **Cash related items:** | | |
| Cash in hand | 405,298 | 380,757 |
| Nostro current account in Central Bank | 63,708 | 283,587 |
| Current accounts in other banks (nostro, overdrafts on loro accounts) | 108,092 | 8,538 |
| | **577,098** | **672,882** |

## 28. Seasonality or periodicity of business activity

The business activity of the Group does not involve significant events that would be subject to seasonal or cyclical variations.

## 29. Issue, redemption and repayment of debt and equity securities

In the first half of the year 2017 no issue, pay back or repurchase of debt or equity securities took place.

## 30. Paid or declared dividends

### Dividends declared

The Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter WZ) adopted a resolution on distribution of the net profit for 2016 on June 22, 2017. The Meeting resolved to appropriate the amount of PLN 591,887,988.00 for the dividend payment, which means that the dividend per one ordinary share is PLN 4,53. The dividend has cash character and the number of shares covered by the dividend equals to 130,659,600.

Simultaneously, the WZ resolved to set the date of the right to the dividend for July -3, 2017 (the day of the dividend) and the day of the dividend payment for July 20, 2017 (the day of the dividend payment).

As at day of approval of this financial statement by Management Board the dividend was paid.

## 31. Changes in Group's structure

In the first half of 2017 the structure of the Group has not changed as a result of merger, acquisition or disposal of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

## 32. Significant events after the balance sheet date not included in the financial statements

After 30 June 2017 there were no major events undisclosed in these financial statements, that could have a significant influence on the net result of the Group.

## 33. Changes in granted and received financial and guarantee commitments

The detailed specification of granted and received financial and guarantee commitments as at 30 June2017 and changes in comparison with the end of 2016 are as follows:

| *PLN '000* | As at | | Change | |
|---|---|---|---|---|
| | **30.06.2017** | **31.12.2016** | **PLN '000** | **%** |
| **Contingent liabilities** | | | | |
| financial | 15,495,878 | 14,722,330 | 773,548 | 5.3% |
| Import letters of credit issued | 208,753 | 144,829 | 63,924 | 44.1% |
| Lines of credit granted | 13,969,452 | 13,331,401 | 638,051 | 4.8% |
| Underwritting | 1,196,100 | 1,246,100 | (50,000) | (4.0%) |
| Other | 121,573 | - | 121,573 | - |
| guarantees | 2,384,859 | 2,166,835 | 218,024 | 10.1% |
| Guarantees granted | 2,340,637 | 2,131,868 | 208,769 | 9.8% |
| Export letters of credit confirmed | 707 | 1,023 | (316) | (30.9%) |
| Other | 43,515 | 33,944 | 9,571 | 28.2% |
| | **17,880,737** | **16,889,165** | **991,572** | **5.9%** |
| **Contingent liabilities received** | | | | |
| financial | 11,912 | - | 11,912 | - |
| guarantees | 17,845,903 | 18,125,921 | (280,018) | (1.5%) |
| | **17,857,815** | **18,125,921** | **(268,106)** | **(1.5%)** |
| **Contingent transactions due to FX, securities and derivatives (granted/received liabilities)** | | | | |
| Current* | 3,367,730 | 1,222,536 | 2,145,194 | 175.5% |
| Forward ** | 174,645,346 | 151,432,880 | 23,212,466 | 15.3% |
| | **178,013,076** | **152,655,416** | **25,357,660** | **16.6%** |

**Foreign exchange and securities transactions with current value date*
***Derivatives: FX, interest rate transactions and options*

## 34. Information about shareholders

The table below present the list of shareholders that hold, at both 30 June2017 and the day of publishing this consolidated financial statement for the first half of 2017, directly or indirectly by dependent units, at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital:

| | Value of shares ('000) | Number of shares | % shares | Number of votes at GM | % votes at GM |
|---|---|---|---|---|---|
| Citibank Overseas Investment Corporation, USA | 391,979 | 97,994,700 | 75.0 | 97,994,700 | 75.0 |
| Other shareholders | 130,659 | 32,664,900 | 25.0 | 32,664,900 | 25.0 |
| | **522,638** | **130,659,600** | **100.0** | **130,659,600** | **100.0** |

In the first half of 2017 or during the period from publishing last interim report for the first quarter 2017 to publishing this consolidated financial statement for the first half of 2017, the structure of major shareholdings of the Bank has not undergone any changes.

## 35. Information on pending proceedings

In the first half of 2017 there was no single proceeding regarding Group's receivables or liabilities, the value of which would equal to at least 10% of Bank's equity, pending in court, public administration authority or an arbitration authority.

In the first half of 2017 the total value of all legal proceedings regarding receivables with the participation of the Bank and its subsidiaries did not exceed 10% of Bank's equity.

In the first half of 2017 the total value of all legal proceedings regarding liabilities with the participation of the Bank and its subsidiaries did not exceed 10% of Bank's equity.

In accordance with applicable regulations, the Group recognizes impairment losses for receivables subject to legal proceedings.

In the case of legal proceedings involving the risk of cash outflow due to fulfillment of the obligation, the Group recognized adequate provisions.

As at 30 June 2017, the Bank was among others a party to 16 court proceedings associated directly with derivative transactions that have not been legally terminated: in 10 proceedings the Bank acted as a defendant and in 6 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank. In the first half of 2017, two cases ended legally binding and in favour of the Bank, regarding term financial transactions, where the Bank was defendant or plaintiff.

In the first half of 2017 the Group has made significant settlement due to court case. As the result of dispute's final settlement, the Bank has made a sentenced payment to plaintiff in the amount of PLN 5 155 thousand.

The Bank was a party to the proceeding initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa Europay payment system operators and banks - issuers of Visa cards and Europay/ Eurocard/ Mastercard and one of the addressee of the President of UOKiK's decision in the case. This procedure applies to practices limiting the competition on payment-cards market in Poland, by consisting in the joint determination of 'interchange fees' for transactions made by cards of Visa and Europay / Eurocard / Mastercard as well as limiting the access to market for operators who do not belong to the unions of card issuers and against whom proceedings have been initiated. The President of UOKiK's decision was a subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set up at the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. The verdict is binding and enforceable. On April 4, 2017 the Bank's extraordinary appeal was accepted by the Supreme Court in pre-court protocol for further examination and recognition.

## 36. Transactions with the key management personnel

| *PLN'000* | 30.06.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| | Members of the Management Board | Members of the Supervisory Board | Members of the Management Board | Members of the Supervisory Board |
| **Loans granted** | **369** | **67** | **719** | **-** |
| | | | | |
| **Deposits** | | | | |
| Current accounts | 12,428 | 2,808 | 10,078 | 4,216 |
| Term deposits | 4,888 | 950 | 5,227 | 1,000 |
| | **17,316** | **3,758** | **15,305** | **5,216** |

As at 30 June 2017 and 31 December 2016, no loans or guarantees were granted to members of the Management Board and the Supervisory Board.

All transactions of the Group with members of the Management Board and the Supervisory Board are at arm's length.

From the scope of work relationship, among contracts of employment between Bank and Members of Management Board, only in one case of one Member of Management Board the contract includes a provision on the financial compensation in case of its termination upon notice or pursuant to Article 53 of the Labour Code.

A separate non-competition agreement conducted with the Bank applies to each member of the Bank's Management Board. According to its provisions, in case of termination of employment in the Bank, in the period of 12 months (in case of one member of the Management Board – of 6 months) from the date of employment termination, the member of the Management Board is obligated to refrain from competitive activities against the Bank. Due to limitations mentioned above, the Bank will be obliged to pay the compensation to the member of the Management Board.

## 37. Related parties

### Transactions with related parties

The Group is a member of Citigroup Inc. Citibank Overseas Investment Corporation, a subsidiary of Citibank N.A., which is the ultimate parent entity for the Bank.

Within its normal course of business activities, the Group enters into transactions with related entities, in particular with entities of Citigroup Inc.

The transactions with related entities result from current activity of the Group, and mainly include loans, deposits, guarantees and derivatives transactions.

Apart from the transactions described in this section, in the presented period neither the Bank nor the Bank's subsidiaries conducted any transactions with related entities, which would be individually or jointly significant. No transaction with related entities was concluded on terms other than market terms.

### Transactions with Citigroup Inc. entities

The receivables and liabilities towards Citigroup Inc. companies are as follows:

| *PLN '000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| **Receivables** | **296,171** | **102,855** |
| **Liabilities, including:** | **859,088** | **1,242,047** |
| Deposits | 320,020 | 237,515 |
| Loans received | 1,329 | 6,999 |
| **Derivative** | | |
| Assets held-for-trading | 421,599 | 823,853 |
| Assets due to hedge derivative instruments | 857 | 11,912 |
| Liabilities held-for-trading | 564,464 | 669,388 |
| Liabilities due to hedge derivatives | 10,087 | 26,482 |
| **Contingent liabilities granted** | **390,436** | **264,347** |
| **Contingent liabilities received** | **65,124** | **68,290** |

| *PLN '000* | 30.06.2017 | 31.12.2016 |
|---|---|---|
| **Contingent derivative transactions (liabilities granted/received), including:** | **49,814,486** | **77,856,118** |
| Interest rate instruments | 32,809,026 | 68,946,263 |
| Currency instruments | 16,133,802 | 8,439,712 |
| Securities transactions | 721,891 | 195,488 |
| Commodity transactions | 149,767 | 274,655 |

| *PLN '000* | 01.01. – 30.06. 2017 | 01.01. – 30.06. 2016 |
|---|---|---|
| Interest and commission income | 30,884 | 18,431 |
| Interest and commission expense | 19,833 | 33,619 |

The Group receives income and incurs costs on derivative transactions with entities of Citigroup Inc. in order to hedge market risk. These are back to back derivative transactions, opposite to transactions with Group's other clients, and closing Group's own position, that is related to the risk of market parameter (exchange rate, FX), whereas the stable part e.g. the margin cannot be closed due to the risk involved in those transactions. On 30 June 2017 net balance valuation of transactions on derivatives amounted to PLN (152,095) thousand (31 December 2016: PLN 139,895 thousand. The Bank runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation technique recommended by the "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulation this in particular applies to the portfolios exceeding 500 derivative transactions.

Furthermore the Group incurs costs and receives income from agreements between Citigroup Inc. entities and the Group, regarding the provision of mutual services.

In the first half of 2017, the costs incurred and accrued (including VAT reflected in the Group's costs) from the agreements were connected, in particular, with costs of services regarding the maintenance of Group's information systems and advisory support, and are presented in the General administrative expenses and other operating expenses; income was related to data processing and other services rendered by the Group and is presented in the Other operating income.

| *PLN '000* | 01.01. – 30.06. 2017 | 01.01. – 30.06. 2016 |
|---|---|---|
| General administrative expenses | 99,396 | 94,373 |
| Other operating income | 3,764 | 4,079 |

In first half of 2017 there was a capitalization of investments regarding effort over modification of functionality of IT Bank's systems'. Total value of payments to Citigroup Inc. units amounted to PLN 29,156 thousand (in 2016: PLN 11,229 thousand).

## 38. Other significant information

### Personal changes in the Bank's bodies.

On 22 June 2017 Marek Belka and Marc Luet were appointed Members of the Supervisory Board by The Ordinary General Meeting of Shareholders for a three-year period, whereas Stephen R. Volk was appointed Member of the Supervisory Board for a subsequent three-year period.

Members of Management Board signatures

| Date | Name | Position/Function | Signature |
|---|---|---|---|
| 21.08.2017 | Sławomir S. Sikora | The President of Management Board | ............................ |
| 21.08.2017 | Maciej Kropidłowski | Vice-president of Management Board | ............................ |
| 21.08.2017 | David Mouillé | Vice-president of Management Board | ............................ |
| 21.08.2017 | Barbara Sobala | Vice-president of Management Board | ............................ |
| 21.08.2017 | Witold Zieliński | Vice-president of Management Board,Chief Financial Officer | ............................ |
| 21.08.2017 | Katarzyna Majewska | Member of Management Board | ............................ |
| 21.08.2017 | Czesław Piasek | Member of Management Board | ............................ |